
Status of Iraq Reconstruction

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INTRODUCTION

This is the third Report in which SIGIR provides a sector-by-sector review of Iraq reconstruction. In the January 2006 Report, SIGIR analyzed progress in the essential infrastructure sectors—electricity, oil and gas, and water. The April 2006 Report added four sectors: security and justice; health care; transportation and communications; and democracy, education, and private sector development. This quarter, SIGIR updates those seven sectors and adds new reviews of non-construction projects and the agriculture subsector.

To assess overall progress, SIGIR examines three aspects of reconstruction—activities,⁴ outputs, and outcomes:

- *Activities*: reconstruction progress at the project level
- *Outputs*: results of the reconstruction projects
- *Outcomes*: effects of the project outputs for the people of Iraq

During this reporting quarter, electricity generation rose above pre-war levels for the first time in more than a year. Oil production improved as well, reaching the pre-war level of 2.5 million barrels per day (BPD) for one week in mid-June. Oil exports also increased, averaging 1.6 million BPD throughout this quarter. Exports ended the quarter at 1.67 million BPD for June, slightly above the Iraqi goal of 1.65 million BPD. The primary healthcare centers (PHCs) continue to face the challenges that SIGIR reported on last quarter. To date, only six PHCs have been handed over to Iraqi control out of a total of 142 PHCs funded by the Iraq Relief and Reconstruction Fund (IRRF) and the Commander's Emergency Response Program (CERP).

This section also provides updated information on IRRF contracts, the costs to complete reconstruction projects in Iraq, and a review of sources of funding.

GENERAL CHALLENGES

Based on the detailed sector reviews in this section, SIGIR makes these general observations about the reconstruction program in Iraq:

1. The contracting phase of IRRF 2 is nearly complete. All of the funds have been allocated, 91% has been obligated to contracts, and nearly 70% has been expended. All IRRF funding must be obligated by the end of this fiscal year. With \$1.74 billion left to obligate, the focus this quarter has been on obligating funds, which must be completed by September 30, 2006. This impending deadline has created an urgency to obligate, which must be balanced by the need to responsibly expend U.S. taxpayer money.
2. More than 82% of U.S. projects have been completed, and less than 4% are left to start. Although nearly 70% of IRRF 2 is expended, many key projects are still not finished.
3. The importance of effectively transitioning U.S.-funded programs and projects to Iraqi control remains a significant issue. A SIGIR audit of transition released this quarter found no overall strategic plan for transitioning program control to the Iraqi government, although several working groups are addressing key issues. One of the groups—the Ministerial Coordination Team (MCT)—briefed SIGIR this quarter on the National Capacity Development (NCD) program.⁵ The Iraq Reconstruction Management Office (IRMO) is leading this short-term phase (\$61.5 million) of the NCD while the U.S. Agency for International Development (USAID) is leading the medium-term phase (\$308 million), which includes institution-building and training programs.⁶
4. Security continues to be a major challenge in Iraq affecting all reconstruction sectors. Project funds and resources continue to be diverted to cover security costs. The dangerous environment makes it difficult to coordinate site logistics and personnel movements, slowing the progress of U.S.-funded activities and detracting from outputs and outcomes.
5. Corruption in Iraqi institutions remains a major challenge across sectors, diluting resources, discouraging international investment, and eroding trust in the government.

For an overview of reconstruction status, see Figure 2-1.

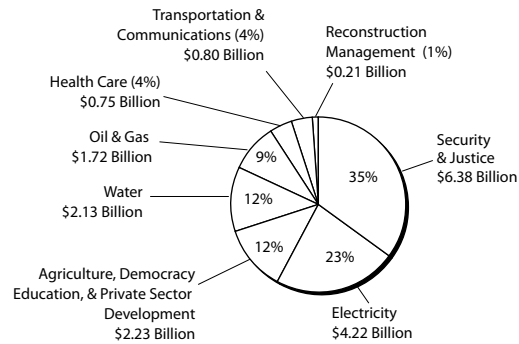
Figure 2-1

OVERVIEW OF RECONSTRUCTION PROGRESS

SECTOR SHARES OF IRRF FUNDS

% of \$18.44 Billion

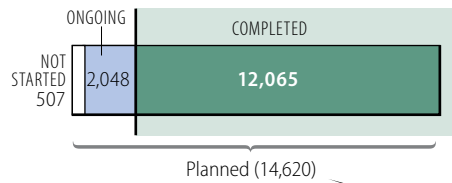
Source: DoS *Iraq Weekly Status Report*, 06/28/06



STATUS OF IRRF PROJECTS

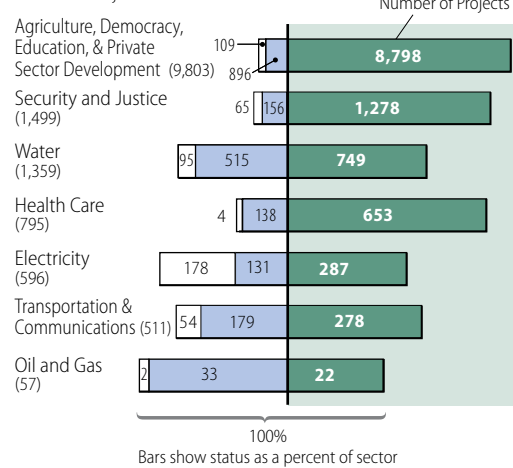
Source: IRMS-IRMO Rollup File, 06/30/06

& USAID Activities Report, 07/10/06



Status of Projects by Sector

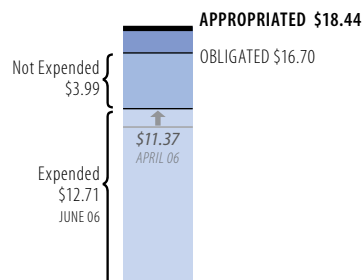
Number of Projects



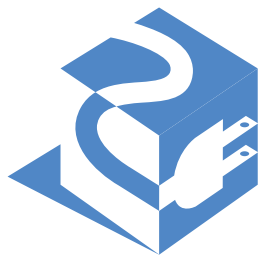
STATUS OF IRRF FUNDS

\$ Billions

Source: DoS *Iraq Weekly Status Report*, 06/28/06







STATUS OF THE ELECTRICITY SECTOR

This review updates the status of U.S. reconstruction projects to restore Iraq's capacity to generate, transmit, and distribute electricity.

These are the highlights of the electricity sector report:

- By the end of last quarter, 48% of planned projects were complete, and 56% of the allocated funds were expended. More than \$740 million of the allocated \$4.22 billion must still be obligated by September 30, 2006. For the status of IRRF funds, see Figure 2-2.
- All projects in this sector are expected to be completed by January 2008. Figure 2-3 shows the location of completed and ongoing projects.
- U.S. projects have contributed 2,710 megawatts (MW) to Iraq's generation capacity, which climbed above pre-war levels (4,500 MW) to 5,042 MW, as of June 27, 2006. The average daily load served, however, is a better measure of how much power is reaching

Iraqis. During this quarter, the load served topped 100,000 megawatt hours (MWh) for the first time since summer 2005.

- Iraqis outside of Baghdad continue to receive more hours of power than before the 2003 invasion (12.1 hours). In Baghdad, however, less power is available than before the war (8.1 hours), in part because power is now delivered more equitably throughout the country than it was during Saddam's era. Baghdad's electricity deficit also stems from an inability to transfer power from power plants in northern and southern Iraq to the capital.
- Slow progress in this sector can be attributed to many challenges: funding, rising demand, subsidies, insufficient operations and maintenance (O&M) programs for U.S. projects, fuel shortages, security, and the deteriorated infrastructure.

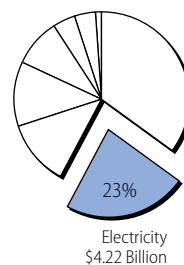


Figure 2-2
ELECTRICITY SECTOR AS A SHARE OF IRRF FUNDS
 % of \$18.44 Billion
 Source: DoS *Iraq Weekly Status Report* 06/28/06



IRRF-funded Activities in the Electricity Sector

In this sector, 178 projects (30%) have yet to begin, and 48% have been completed.

GRD-PCO reports that all projects in this sector will be completed by January 2008.⁷

Figure 2-4 shows the status of electricity projects by subsector.

All electrical generation projects have started, and 55% have been completed; however, more than a third of distribution and transmission projects have yet to start because these projects were added later in the reconstruction program. The remaining distribution and transmission projects are generally smaller and less complex than the large-scale generation projects.⁸

During this reporting period, \$320 million was expended in this sector—up from last quarter's expenditure level of \$240 million—bringing total expenditures to \$2.35 billion. Although all other sectors are nearing full

obligation, the electricity sector has more than \$740 million left to obligate. By law, all IRRF funds must be obligated by September 30, 2006. The Joint Contracting Command-Iraq must ensure that the need to quickly obligate this \$740 million in 60 days does not attenuate the use of best practices. Figure 2-5 shows the status of funds in the electricity sector, as of June 28, 2006.

Key Projects Completed and Underway

The U.S. reconstruction program in the electricity sector has three major types of projects:

- *Generation facilities* produce power for the system.
- *Transmission networks* carry that power across the country.
- *Distribution networks* deliver the transmitted power to local areas, homes, and businesses.

Figure 2-3
ELECTRICITY CONSTRUCTION PROJECTS BY GOVERNORATE

Number of Projects

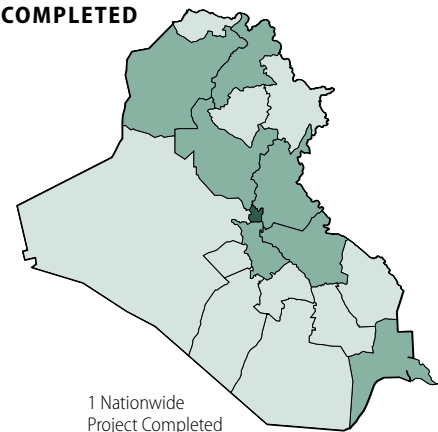
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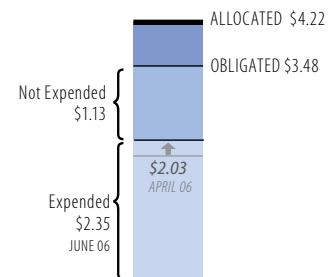
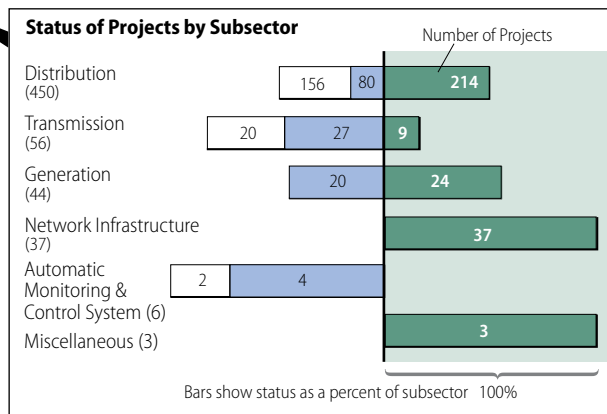
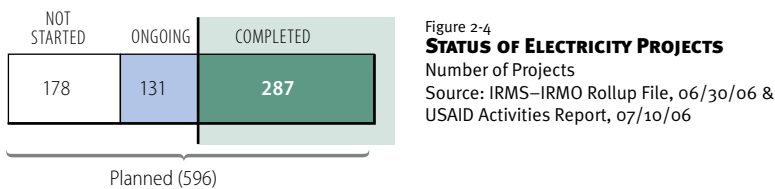


ONGOING



COMPLETED





U.S. projects will provide an automatic monitoring and control system for the entire electric grid. This system is essential to reducing unplanned power outages. GRD-PCO reports that these highly technical and long-term automation and control projects are all on schedule.⁹

GENERATION FACILITIES

All remaining generation projects will be finished by January 2008. The Al-Doura power plant will add 280 MW to the power grid, serving more than 1.5 million people in the

Baghdad area.¹⁰ This quarter, one Al Doura unit was commissioned, and a second is scheduled for commissioning in late 2006.¹¹ The Khor Al Zubair generation plant, which provides 246 MW of generation capacity, was finished in March 2006.¹²

Many of the sector's remaining generation projects address sustainability, including training, maintenance, and other non-construction activities. Maintenance was completed at the Qudas power plant this quarter (costing \$27.7 million), which will help sustain the plant's 400 MW of generation capacity. Similar work is nearly complete at the Baiji power plant



(\$59 million) to sustain 320 MW of generation capacity. Work at Baiji was estimated to be completed by June 6, 2006, but is still in progress.¹³ Maintenance work (\$11 million) at the Shaubia power plant was completed, and currently two units are operating to produce 26 MW.¹⁴

An additional \$80 million is being spent on an O&M program for the electricity sector. The major contractor for long-term O&M was terminated this quarter for cause. IRMO reports that an agreement with a new contractor was finalized in July,¹⁵ and a 30-day bridge contract was issued to allow for an effective transition.¹⁶

TRANSMISSION NETWORKS

Only nine transmission projects have been completed to date, and more than a third have yet to begin. According to GRD-PCO, these projects were added later in the reconstruction program.¹⁷ The subsector project highlights include:

- A transmission line between Haditha and Baiji was scheduled to be completed in March 2006, but it is delayed. GRD-PCO reports that the \$59 million transmission



Baiji Power Plant

project will be completed through direct contracting. The Haditha hydro-power unit was completed in mid-2004, providing 105 MW of generation capacity.¹⁸

- The Haditha to western Anbar transmission project is delayed because of security problems.¹⁹
- Several transmission substations were completed in Baghdad this quarter, including a substation at Baghdad West and substation extensions at Baghdad North and South.²⁰



ELECTRICITY DISTRIBUTION PROJECTS

REGION	COST	ESTIMATED COMPLETION DATE	CURRENT STATUS
North	\$159 million	August 22, 2006	95% complete
Baghdad Local Network Infrastructure	\$69 million	November 15, 2006	61% complete
Central	\$31 million	October 15, 2006	85% complete
Sadr City	\$92 million	December 26, 2006	35% complete
South	\$132 million	November 20, 2006	36% complete
Fallujah	\$45 million	November 30, 2006	45% complete

Source: GRD-PCO response to data call, June 19, 2006.

TABLE 2-1

ELECTRICITY OUTPUT OF U.S. PROJECTS

CURRENT U.S. CONTRIBUTION, AS OF JUNE 30, 2006	TOTAL PLANNED U.S. CONTRIBUTION	U.S. PROGRESS TOWARD END-STATE GOAL
2,710 MW	3,710 MW	73%

Source: DoS, SIGIR Data Request, July 3, 2006.

TABLE 2-2

DISTRIBUTION NETWORKS

Like transmission projects, more than a third of distribution projects have yet to start. This hinders progress in getting generated power into Iraqi homes. Ongoing projects are summarized by region in Table 2-1.

The Outputs of IRRF-funded Electricity Projects

The outputs of U.S. electricity projects are measured by *generation capacity* added to the grid

in MW. Table 2-2 compares current U.S. contributions with the U.S. goal for contributions. U.S. reconstruction projects have contributed 2,710 MW of generation capacity—no change from last quarter. Although progress was made at various project sites, no generation projects were completed this quarter to contribute to the U.S. end-state goal of 3,710 MW.

Outcomes of IRRF Projects

During this reporting period, the daily load served averaged nearly 94,000 MWh—an



increase over last quarter's average of 89,000 MWh. In June 2006, the load served rose above 100,000 MWh for the first time since summer 2005. Current load served was nearly identical to the same quarter last year—107,000 MWh and 107,378 MWh for the last weeks of June 2005 and 2006, respectively.²¹ As Figure 2-6 shows, the daily average load served during this quarter is back to levels reached a year ago.

Distributing power from generation facilities to Iraqi homes remains a major challenge. Table 2-4 indicates the hours of power available to Iraqis compared to pre-war levels. Although the goal of 12 hours of power per day has been met in areas outside Baghdad, power provided to Baghdad continues to lag below the 2006 summer goal, in part because

power is delivered more equitably throughout the country than it was before the war. Also, part of Baghdad's electricity deficit stems from the inability to transfer power from plants in northern and southern Iraq.²²

The Ministry of Electricity recently released a ten-year plan that covers generation, transmission, and distribution, needs.²³ In an interview with SIGIR, the Minister of Electricity observed that long-term planning had not been adequately accomplished during the previous transitions between successive interim governments.²⁴ A key capacity development project will support the Ministry by building expertise in project and program management and long-term planning.²⁵

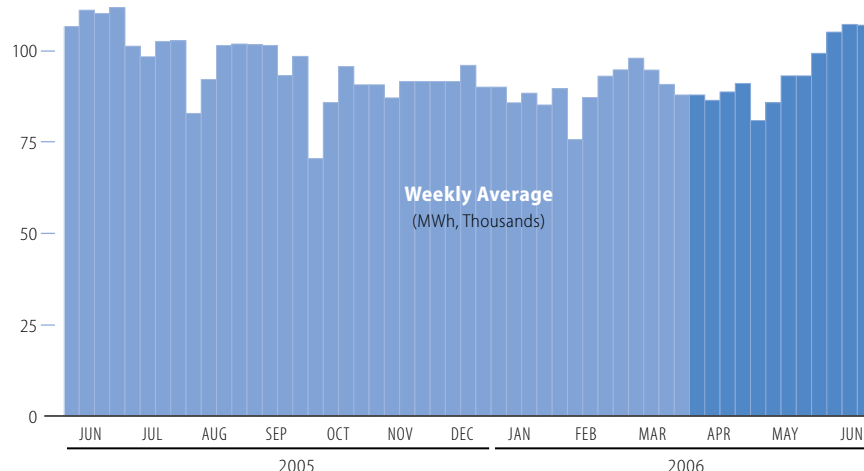


Figure 2-6
ELECTRICITY LOAD SERVED
Megawatt Hours, Thousands
Source: DoS *Iraq Weekly Status Report*, IRMO
Weekly Status Report, 06/29/05–06/27/06



CURRENT OUTCOMES VS. PRE-WAR LEVELS AND GOALS

OUTCOME METRIC	PRE-WAR LEVEL	IRAQ GOAL FOR JULY 2006	DAILY AVERAGE, LAST WEEK IN JUNE 2006
Iraq Hours of Power/Day	4-8	12	12.1
Baghdad Hours of Power/Day	16-24	12	8.1

Sources:

Pre-war level: DoS Briefing by U.S. Embassy Baghdad, November 30, 2005.

Goals: Joint U.S.-Iraqi Electricity Action Plan, March 12, 2006, p. 2.

Current Status: DoS, *Iraq Weekly Status Report*, June 28, 2006, p. 12.

TABLE 2-4

Challenges

Challenges in this sector include limited funding, rising demand, subsidies, sustaining U.S. projects through O&M programs, fuel shortages, security, and the deteriorated infrastructure.

FUNDING

The estimated 2005 budget for the Ministry of Electricity was approximately \$380 million.²⁶ The Minister of Electricity told SIGIR that his budget was recently increased by the Ministry of Finance, but this increase still leaves the budget at only a fraction of what the Ministry needs per year.²⁷ Iraq needs to invest an estimated \$20 billion in this sector by 2010 to bring generation capacity to the goal of 18,000 MW.²⁸

RIISING DEMAND

Demand for electricity, which amounts to an estimated 8,000 to 9,000 MW,²⁹ continues to surpass Iraq's total generation capacity, which amounts to about 5,000. This high demand is attributable to government subsidies, a growing economy, and a surge in the consumer purchases of appliances and electronics. Reforming the subsidy program and a better cost-collection system could reduce soaring demand. The U.S. Defense Reconstruction Support Office (DRSO) recently stated that improving electricity revenue collection would encourage efficient electricity use and thus reduce demand.³⁰



Powerlines between Baiji and Kirkuk

SUBSIDIES

Iraqis pay less than one cent per kilowatt-hour;³¹ however, residents of Iran, Jordan, and Syria pay up to five cents per kilowatt-hour.³² Government subsidies account for this low rate, and they contribute to the abnormal demand for electricity in Iraq.

In late 2005, the International Monetary Fund (IMF) approved its first Stand-By Arrangement (SBA) for Iraq, which provides about \$685 million in credit. As part of the arrangement, Iraq must reduce subsidies.³³ In response, petroleum prices are gradually being increased, but electricity prices have yet to change.

The Ministry of Electricity reports that a new set of rates is needed to provide more revenue and to help dampen demand.³⁴ The Ministry's ten-year strategic plan addresses

electricity sales, collection, and tariffs. However, the plan provides little detail on how the current pricing situation will be resolved; thus, subsidies appear likely to continue to burden the sector in the near term.³⁵

OPERATIONS AND MAINTENANCE

The sustainment of U.S. efforts after projects and programs transition to Iraqi control is a continuing challenge in the electricity sector. The Government Accountability Office (GAO) reported recently that "Iraqis' capacity to operate and maintain the power plant infrastructure and equipment provided by the United States remains a challenge at both the plant and ministry levels."³⁶ GAO plans to assess the funding situation for O&M in the electricity sector to determine if adequate funds are available to sustain U.S. reconstruction projects.³⁷

The sector's \$80 million O&M program will continue despite a change in contractors since the last quarter. This program will provide O&M services at thermal and gas turbine power plants.³⁸

Ministerial capacity-development programs in the electricity sector are contributing to the sustainment of U.S. projects, focusing on critical infrastructure management and building expertise through training.³⁹ The Electricity Ministerial Advisory Team (EMAT) recently agreed to develop a specific scope of work for the capacity-development program within the Ministry of Electricity.



FUEL SHORTAGES

U.S. reconstruction projects have installed 35 natural gas turbines in generation plants in Iraq. However, of the 35 gas turbines, 16 are using crude or heavy fuel oil instead of natural gas.⁴⁰ The DRSO estimated in 2005 that 1,300 MW of generation capacity was unavailable to the grid because the wrong fuel was used to fire gas turbines.⁴¹ This causes a more rapid deterioration of parts, longer maintenance down times, and more pollution.⁴² Additionally, using oil-based fuels costs more. IRMO estimates that using oil-based fuels costs \$1.25 billion per year.⁴³ Approximately 60% of all natural gas production in Iraq is flared off.⁴⁴ But if this excess gas could be diverted and used to operate the plants, costs would drop to only \$81.8 million per year.⁴⁵

SECURITY

The Minister of Electricity told SIGIR that security remains the biggest challenge for the electricity sector.⁴⁶ SIGIR Audit 06-009 found that a security program for the electricity sector—the Electrical Power Security Service (EPSS)—was unsuccessful and “barely got started before it was cancelled.”⁴⁷ Recently, a contractor suspended work on a non-IRRF project at the Al Mussaib power plant in part because of the security situation.⁴⁸

IRMO officials report that the current security system for grid protection encourages corruption. Tribal chiefs are paid to protect transmission lines in their areas but are reportedly selling materials from downed lines and exacting tariffs for access to repair lines. IRMO is pushing to change the system so that tribes would be paid only for lines that remain operational for a specific period of time.⁴⁹



DETERIORATED INFRASTRUCTURE

Figure 2-7 shows the installed capacity of Iraqi power stations compared to the age of stations, excluding those that have come online since the 2003 conflict. The data shows that there was a major gap in the 1990s, during which

no power stations were built. Thus, more than 90% of Iraq's generation capacity was built before 1991 (9,848 MW before 1990; 1,046 MW after). The shortage of O&M funds in the 1990s needed to maintain older facilities contributed to the deterioration of most of the electrical infrastructure.

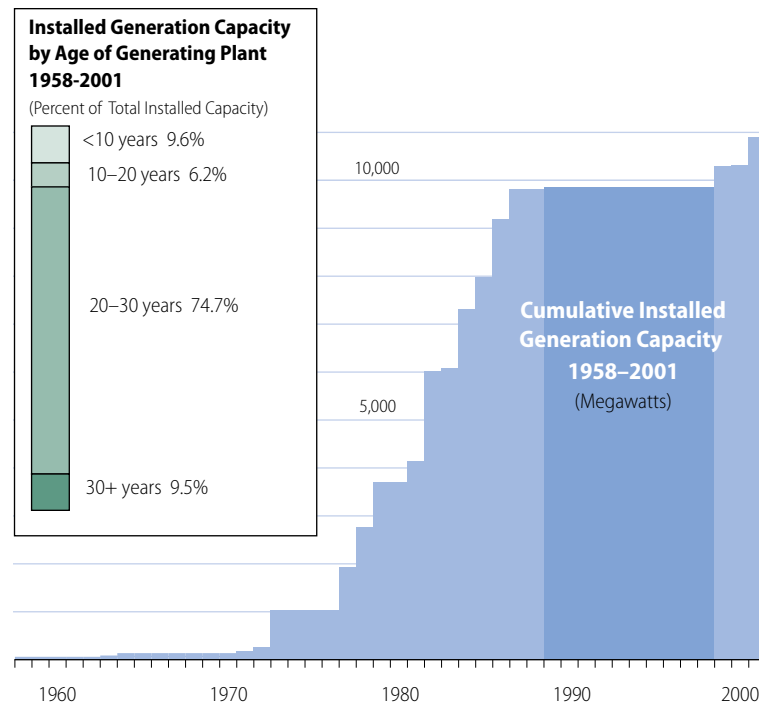


Figure 2-7
IRAQ PLANT GENERATION CAPACITY VS. AGE
Source: IRMO data e-mailed to SIGIR, June 30, 2006



STATUS OF THE OIL AND GAS SECTOR

This review updates the status of U.S. reconstruction projects to increase Iraqi oil production and exports, improve natural gas production, and enhance critical fuel-refining capabilities. Project work in this sector is designed to maintain major production fields and to repair key facilities and infrastructure.

These are the highlights of the oil and gas sector report:

- More than 95% of the sector's allocation has been obligated, but less than 60% has been expended.
- Oil production, which hovered around 2 million barrels per day (BPD) throughout 2005 and most of the first half of 2006, reached 2.5 million BPD in mid-June. In the two weeks following this peak, however, production decreased to 2.35 and 2.23 million BPD, respectively.
- Exports averaged 1.6 million BPD throughout the quarter and closed at 1.67 million BPD for June, slightly above the end-state goal of 1.65 million BPD.
- The volatile security situation and limited provisions for sustainment continue to be challenges for developing the sector.
- Corruption threatens not only Iraq's capacity to fund new capital investment, but also its ability to sustain and increase production.

Funding the Oil and Gas Sector

The IRRF allocation to this sector was \$1.72 billion. Figure 2-8 shows allocations in oil and gas sector funding as a percentage of total IRRF funding.

IRRF-funded Activities in the Oil and Gas Sector

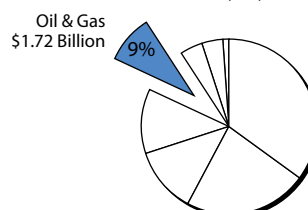
Critical oil and gas facilities are nearing completion, and U.S. reconstruction officials estimate that all construction in the sector will be complete by mid-January 2007.⁵⁰

During this reporting period, \$180 million was expended, bringing the cumulative total to \$1 billion. Although more than 95% of the sector's allocation has been obligated, less than 60% has been expended. Figure 2-9 shows the status of funds in the oil and gas sector.

Figure 2-8
OIL AND GAS SECTOR AS A SHARE OF IRRF FUNDS

% of 18.44 Billions

Source: DoS Iraq Weekly Status Report, 06/28/06





IRRF-funded Project Status

The total number of planned projects in this sector increased to 181, including 124 non-construction and 57 Engineering, Procurement, and Construction (EPC) projects.⁵¹ Figure 2-10 breaks down the status of construction projects in the oil and gas sector.

Key Oil and Gas Projects Completed and Underway

IRRF-funded construction initiatives in the oil and gas sector have focused on production but have also helped rehabilitate transmission, refining, and gas facilities. Figure 2-11 shows oil and gas sector construction projects by governorate.

CONSTRUCTION ACTIVITIES

The Al Basrah Oil Terminal (ABOT) task order, comprising 13 projects, was 39% complete as of June 30, 2006. Four of these projects have been completed, including repairs and refurbishments to four loading arms,⁵² which will provide up to six million barrels of oil per day total loading capacity.⁵³ Although the export capacity of the terminal has been increased, GRD-PCO does not expect a significant increase in export volumes because pumping capacity to ABOT is limited; only two 48-inch pipelines feed the platform.⁵⁴

The ABOT metering system project, which was reported to be 30% complete last quarter, made little progress this quarter because the subcontractor was delayed in mobilizing. As a result, the project is now 33% complete, and

it is scheduled to be finished by December 31, 2006.⁵⁵ The lack of progress implementing this metering system undermines the effort to combat corruption and smuggling in this economically crucial sector.

The Kirkuk to Baiji Pipeline Project—including the Al Fatah pipeline river crossing, three canal crossings, and 50 kilometers of a new 40-inch pipeline—is expected to add 300,000 barrels of production capacity per day. However, the project has experienced delays caused by security problems at the Zegeton and Riyadh canal crossings. Section 3 of this Report provides SIGIR inspections addressing progress at the Al Fatah River Crossing and at the Zegeton and Riyadh canal crossings.

The Qarmat Ali project is designed to provide treated water for injection wells to maintain reservoir pressure and help sustain production levels in one of Iraq's largest southern fields. Phase II of the Qarmat Ali task order is currently 41% complete.⁵⁶ The contractor has begun work on upgrades to the water treatment plant and nine Cluster Pump Station projects at the Qarmat Ali sites. This project will ultimately increase Iraqi oil production capacity by 200,000 BPD. GRD-PCO reported that the project is scheduled for completion on December 31, 2006.⁵⁷

As of June 30, 2006, 12 gas-oil separation plants (GOSPs) were undergoing refurbishments throughout southern Iraq. Once completed they will increase oil processing capacity by 600,000 BPD. Also, 8 GOSP projects in the north have been completed, and they will increase processing capacity by 300,000 BPD.



Figure 2-10
STATUS OF OIL AND GAS CONSTRUCTION PROJECTS

Number of projects
Source: IRMS – IRMO Rollup File, 06/30/06 & USAID Activities Report, 07/10/06

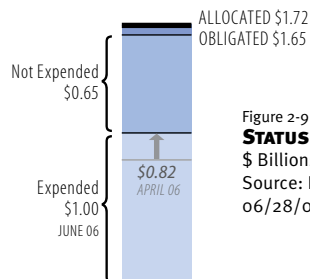
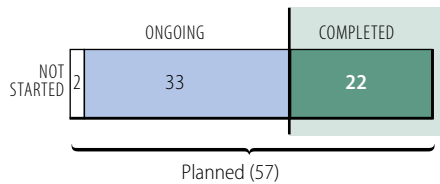


Figure 2-9
STATUS OF OIL AND GAS FUNDS
\$ Billions
Source: DoS Iraq Weekly Status Report, 06/28/06

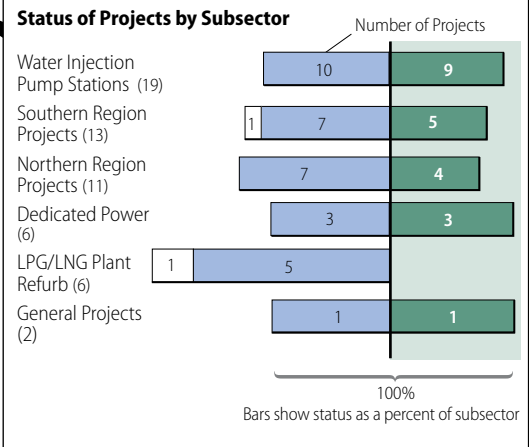
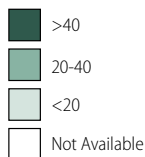


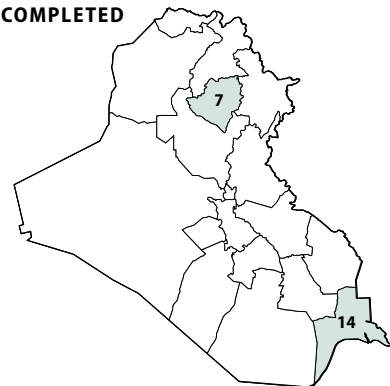
Figure 2-11
OIL AND GAS CONSTRUCTION PROJECTS BY GOVERNORATE
Number of projects
Source: IRMS – IRMO Rollup File, 06/30/06 & USAID Activities Report, 07/10/06



ONGOING



COMPLETED





A GOSP separates gas, water, and salts from crude oil produced from a well. This process must be accomplished before the oil can be transported or refined. The GOSP projects in the southern Iraq were 83% complete as of late June 2006 and are expected to be finished by October 3, 2006.⁵⁸

Rehabilitation work continues on two natural gas liquids (NGL) plants, a liquefied petroleum gas (LPG) plant, and bulk storage facilities at North Rumaila, Khor Zubair, and Umm Qasr, respectively. The task order for this program is currently 65% complete and is expected to be finished by December 24, 2006. This program will help the oil and gas sector meet domestic demand for critical fuels and reduce dependence on imports.⁵⁹

The refurbishment of the Shuaiba Refinery Power Plant in Basrah is nearly complete. The goal of this project is to improve the continuous long-term power supply to the Basrah

Refinery, which will minimize unscheduled shutdowns caused by power loss.⁶⁰

NON-CONSTRUCTION ACTIVITIES

Non-construction initiatives seek to maintain and sustain this sector's construction projects. They received 45% of oil and gas sector funding, which has been expended on administrative overhead, training, spare parts, long-term service agreements, and ministerial capacity development.⁶¹

The U.S. Trade and Development Agency (USTDA) has developed training initiatives for the Ministry of Oil and at each of the Iraqi state oil companies.⁶² USTDA training addresses management techniques, business processes (which includes anticorruption training), technical concepts, and human resources.⁶³ The program, which began in December 2004, is funded with \$2 million of IRRF and \$500,000



Gas being flared at an oil facility



from USTDA funds. According to USTDA, the program's results are succeeding, with 600 Iraqis receiving training.⁶⁴

GRD-PCO is also involved in non-construction initiatives addressing sustainment and ministerial capacity development. Ministry of Oil personnel are currently being trained to prepare and competitively tender long-term service agreements under international standards.

Iraqis are also being trained to use heavy equipment in Basrah. As of June 2006, 232 workers had been trained to use cranes, fuel trucks, tank trailers, international truck tractors, and other construction equipment. A new ministerial Capacity Development program is planned for March 2007.⁶⁵

Another GRD-PCO program trains operating company personnel on how to use major equipment, such as turbines, compressors, switch gears, and instrumentation. Proper use of this equipment improves productivity and decreases maintenance costs. As of July 2006, GRD-PCO reported that 993 Iraqis had received this training, and an additional 430 are scheduled to receive training in the future.⁶⁶

Outputs of IRRF-funded Oil and Gas Projects

The Department of Energy reported that the Iraqi government is currently exploring ways to increase natural gas processing capabilities in Zubair and West Qurna, as well as finding ways to reduce the waste of natural gas.⁶⁷

According to the Oil Ministry, approximately 60% of all natural gas production is flared off.⁶⁸ This gas could be captured to produce significant amounts of electricity with sufficient new investment.⁶⁹

Low storage capacity has also been identified as a key issue. The Ministry of Oil is currently increasing storage capacity by an additional 1,250 million barrels of crude oil.⁷⁰

Although the coalition did not originally focus on developing refineries, some minor work has recently been completed at existing refineries using IRRF funds. More important, the Iraqi government has begun to finance its own refurbishment projects for refineries and is constructing a new refining facility at Najaf.

Outcomes of IRRF-funded Oil and Gas Projects

The 2006 Iraqi budget assumes a crude oil production average of 2.3 million BPD,⁷¹ with a gradual increase in production to 2.5 million BPD by the end of next year. The overall capacity and production target for Iraq is 2.8 million BPD.⁷²

In the first two months of this quarter, oil production hovered between 2.0 and 2.2 million BPD, spiking in mid-June to a high of 2.5 million BPD. This high production level, however, was subsequently followed by two weeks of lower production.⁷³ Table 2-5 presents oil and gas sector metrics and Figure 2-12 shows crude production since 2003.



CURRENT OIL AND GAS PROJECT BENEFITS VS. PRE-WAR LEVEL AND GOAL

OUTCOMES METRICS	PRE-WAR LEVEL (2003)	CURRENT STATUS, AS OF JULY 2, 2006	U.S. END-STATE GOALS	IRAQI END-STATE GOALS
Oil Production Capacity (million BPD)	2.8	2.5	3.0	2.8
Oil Production (Actual) (million BPD)	2.58	2.23	Not Available	2.8
Export Levels (million BPD)	Not Available	1.67	2.2 (capacity)	1.65
Natural Gas Production (MSCFD)	Not Available	675	800	Not Available
LPG (TPD)	Not Available	1,320	3,000	Not Available

Sources: Pre-war numbers—DoE Country Analysis Brief, meeting with DoE officials on May 31, 2006. Current status—GRD-PCO data response to SIGIR data request, received on July 24, 2006 (production capacity); DoS *Iraq Weekly Status*, July 19, 2006 (oil production and exports); data response from GRD-PCO July 10, 2006 (natural gas production); DoS data response to SIGIR data request, July 24, 2006 (LPG production).

U.S. end-state goals—PCO, "The Oil Story of Iraq," March 2006; GRD-PCO data response to SIGIR data request, July 24, 2006 (production capacity); DoS data response to SIGIR data request, received on July 24, 2006 (export capacity)

Iraqi end-state goals—meetings and discussions with DoS officials for April 2006 Quarterly Report.

TABLE 2-5

EXPORTS

The oil and gas sector remains the economic mainstay of the economy: Iraq's budget for 2006 projects \$28.8 billion, approximately 93% of which is expected to come from crude oil export.⁷⁴ Figure 2-13 shows a timeline of monthly exports and associated revenues.

In June 2006, exports reached 1.67 million BPD, slightly more than the coalition goal of 1.65 million BPD. This is a significant increase from the last Report. With oil prices continuing to climb, sustaining exports at these levels will produce revenue increases. The prospect of increased export activity through the northern pipeline system is an encouraging sign that Iraq's oil industry is strengthening.

If insurgent attacks on the northern pipeline system continue to be a problem, however, the export burden will once again fall on the southern system. The southern system is limited by certain vulnerabilities, such as volatile weather conditions and low storage capacity.

REFINING

Iraq's refineries operate at capacities ranging from 50% to 75%.⁷⁵ The low domestic production levels of critical refined fuels have led to high demand for costly imports from abroad, particularly from Turkey, which has just recently resumed exporting fuel to Iraq after a six-month trade dispute.⁷⁶



Figure 2-12
CRUDE OIL PRODUCTION
 Source: IRMO and DoS *Iraq Weekly Status Report*

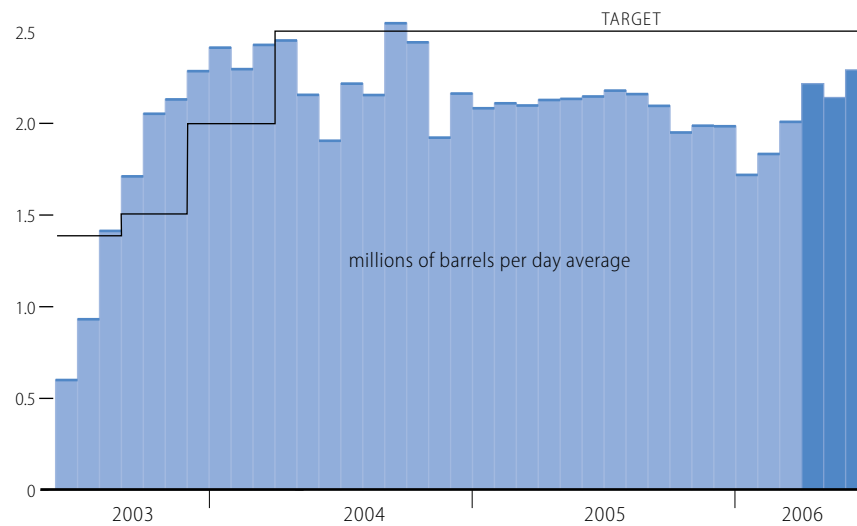
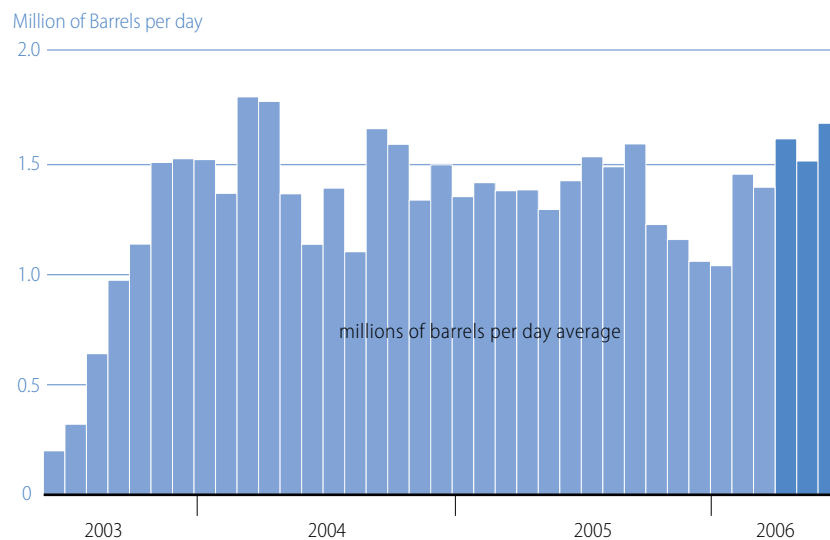


Figure 2-13
OIL EXPORTS
 Source: DoS *Iraq Weekly Status Report*, July 2006





OIL AND GAS

Limitations on domestic refining of critical refined fuels remain a significant concern in the oil and gas sector because domestic demand is high. GAO reports that a “combination of insurgent attacks on crude oil and product pipelines, dilapidated infrastructure, and poor operations and maintenance have hindered domestic refining, and Iraq must import significant quantities of liquefied petroleum gas, gasoline, kerosene, and diesel.”⁷⁷ The Inspector General for the Ministry of Oil also attributes the drop in refining to attacks on crude pipelines, power supply interruptions, and the failure of operational units because of poor maintenance.⁷⁸ Figure 2-14 shows current inventories of refined fuels.

The goal is to provide adequate refined products for domestic consumption by allocating 500,000 BPD of crude oil to domestic refineries, rationing domestic refined products, and temporarily liberalizing private-sector fuel imports at the market rate.⁷⁹ In March 2006, in an attempt to reduce the incentive for corrup-

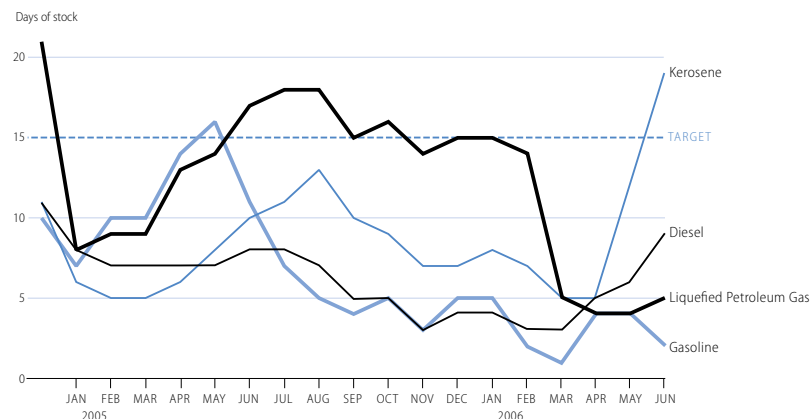
tion while also increasing fuel supplies, the Iraqi government ordered the Ministry of Oil to license private firms to import premium refined fuel products at full market price, tax-free, and without quantity restrictions.⁸⁰

Challenges

SECURITY

In its April 2006 Quarterly Report, SIGIR noted that deteriorating facilities and sabotage have limited progress in the oil and gas sector.⁸¹ During this quarter, the Minister of Oil told SIGIR that security remains the main problem, despite progress in bolstering infrastructure security.⁸² According to DoS, the Ministry of Defense is responsible for guarding pipelines, and the Oil Protection Force, under the control of the Ministry of Oil, is tasked with guarding all other Iraqi oil industry assets.⁸³ The Ministry of Oil IG cited five reasons for the weakness of the security system:

Figure 2-14
INVENTORIES OF CRITICAL REFINED FUELS
Days of Stock
Source: DoS *Iraq Weekly Status Report*





- lack of coordination among the entities given security tasks
- poorly equipped security forces
- staffing difficulties
- lack of a centralized planning authority for short- to long-term security initiatives
- a lack of investigations into sabotage operations⁸⁴

SUSTAINMENT

Sustaining U.S.-funded projects continues to be an important challenge for successfully developing the oil and gas sector. U.S. reconstruction agencies have been administering programs to bolster capacity development and improve O&M practices at oil and gas facilities. These agencies have launched a number of initiatives to address petroleum refining, project management, distribution and marketing, leadership, human resource management, and financial methods.

Additionally, the USTDA and Ministerial Advisory Team (MAT) training programs address some technical issues, but focus mostly on modern business methods. Finally, international oil companies are informally advising the Ministry of Oil on how to operate more efficiently.⁸⁵

CORRUPTION AND SMUGGLING

Corruption and smuggling continue to impede the development of Iraq's oil and gas sector. The Minister of Oil stated in late May 2006 that one of the "first priorities is to fight corruption

and oil smuggling."⁸⁶ In early July, the Minister stated that he would replace the management at the Oil Products Distribution Company, which was found to have engaged in corrupt activities.⁸⁷ Finally, a May 2006 survey found that 20% of Iraqis in 10 major cities have paid bribes to purchase gasoline.⁸⁸

Corruption in the oil and gas sector exists, at least in part, because of the profitability of smuggling crude oil and refined fuels. The Ministry of Oil IG reported in April 2006 that smuggling includes sending imported oil products or stolen local crude to neighboring countries, transferring products supplied to government and non-government facilities to the black market, colluding with oil workers, and taking advantage of lax oversight at loading stations.⁸⁹ The lack of effective metering to monitor the transfer of custody of oil products throughout the distribution network hampers the fight against this significant problem.

According to the Ministry of Oil IG, this vast array of smuggling methods is made possible by five key factors:⁹⁰

- Because Iraq subsidizes the price of oil, oil products are much less expensive in Iraq than in some neighboring countries.⁹¹
- There are weaknesses in monitoring and measuring oil product transactions, particularly from the southern harbors and at the northern and western borders.
- Legal procedures against alleged criminals are weak.
- Iraq is increasingly dependent on imported oil products, largely because of the lack of refining capacity.



Oil leak along the Baiji-to-Kirkuk pipeline

- Attacks on oil facilities and pipelines continue to hinder progress.

The DoS estimates that approximately 10% of refined fuels are sold on the black market and about 30% of imported fuels are smuggled out of Iraq.⁹² In mid-June and early-July 2006, the Iraqi government raised fuel prices for diesel, kerosene, gasoline, and LPG,⁹³ implementing the subsidy reforms outlined in the December 2005 IMF Stand-By Arrangement. This step was part of a series of price adjustments slated to occur throughout the year to bring domestic fuel prices in line with the prices of the neighboring countries, thus diminishing the incentive to smuggle fuel.

ENABLING LEGISLATION

The future of the oil and gas sector depends on new legislation and regulations that will encourage foreign investment to accelerate development in the sector. The legislation must resolve several controversial issues, including sharing oil revenues among the regions, determining ownership of regional resources, and designating the legal entity for brokering exploration and development deals with international oil companies. The Kurdish Regional Government has signed a number of agreements with international oil companies, which adds a new complication to this issue.

Coalition officials and other international experts are working with the Iraqi government to craft oil legislation that would promote an efficient, competent, transparent, and investor-friendly oil and gas sector to further develop all of Iraq and its economy.⁹⁴



STATUS OF THE WATER SECTOR

This review updates the status of U.S. reconstruction projects to increase access to clean water and sewerage services in Iraq and water-resource management capabilities.

These are the highlights of the water sector report:

- IRRF allocations to this sector amount to \$2.13 billion. Only 7% of projects have not yet started, and 55% are complete. Figure 2-15 shows the status of construction projects in this sector by governorate.
- \$450 million is yet to be obligated in the water sector. All funding must be obligated by September 30, 2006.
- The focus in this sector is now on completing all projects. The challenge is to ensure

that U.S. efforts are sustainable. The Water Sector Sustainment Program (WSSP) has provided \$110 million for sustainment activities.

- 4.2 million more people have access to clean water, up from 3.1 million at the end of last quarter. The end-state goal is 8.4 million more people served. Also, 5.1 million more people have access to sanitation services because of U.S. projects; the end-state goal is 5.3 million people.

IRRF-funded Activities in the Water Sector

More than half of the IRRF sewerage projects are finished, and 55% of potable water projects

Figure 2-15

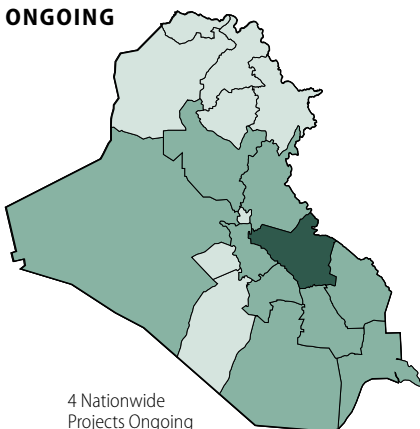
WATER CONSTRUCTION PROJECTS BY GOVERNORATE

Number of Projects

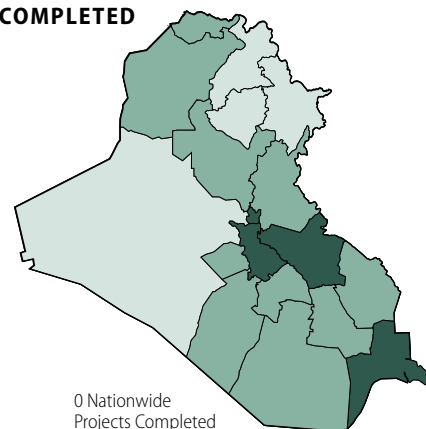
Source: IRMS — IRMO Roll-up File, 06/30/06 & USAID Activities Report, 07/10/06



ONGOING



COMPLETED





are complete. Figure 2-18 shows the status of projects in the water sector.

This quarter, \$250 million was expended, keeping pace with previous quarters—\$202 million last quarter and \$295 million two quarters ago. Nearly 80% of sector funding has been obligated, but less than 54% has been expended. The remaining unobligated funds in the sector must be obligated by September 30, 2006. Figures 2-16 and 2-17 shows the status of funds in the water sector.

Key Projects Completed and Underway

Most of the remaining large projects in the water sector are expected to be finished during 2006; all remaining small-scale projects will be completed in 2007.

One of the largest projects in this sector—the Erbil Water Treatment Plant⁹⁵—was completed at the end of this reporting quarter. In December 2005, insurgents attacked a

16-truck convoy bringing parts for the project, delaying it beyond the original completion date of April 2006.⁹⁶ The \$201 million plant will provide 144,000 cubic meters (m³) of water per day to 333,000 residents of Erbil.⁹⁷

The \$262 million Nassriya Water Treatment Plant project progressed from 70% complete last quarter to 89% complete this quarter.⁹⁸ The original completion date of June 2006⁹⁹ was pushed back to October 2006.¹⁰⁰ The completed water treatment plant will provide 240,000 m³ of water per day for more than 555,000 people.¹⁰¹

The Rural Water Program is expected to provide 70 water treatment sites in underserved, rural areas of Iraq. When completed, the \$68 million project will serve 492,000 Iraqis nationwide. This quarter, 24 of 25 remaining rural water sites were completed.¹⁰²

The Small Water Rehabilitation Program (PW-90), valued at \$63 million, will benefit 1.65 million Iraqis.¹⁰³ This quarter, 12 more

Figure 2-16
WATER SECTOR AS A SHARE OF IRRF FUNDS
% of \$18.44 Billions
Source: DoS *Iraq Weekly Status Report*, 06/28/06

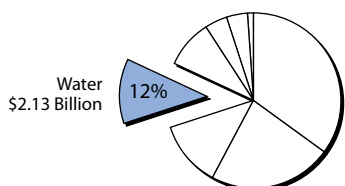


Figure 2-17
STATUS OF WATER FUNDS
\$ Billions
Source: DoS *Iraq Weekly Status Report*, 06/28/06

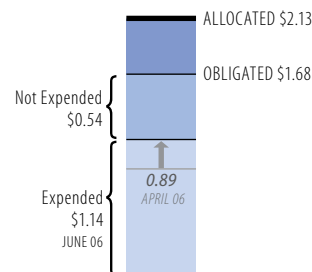
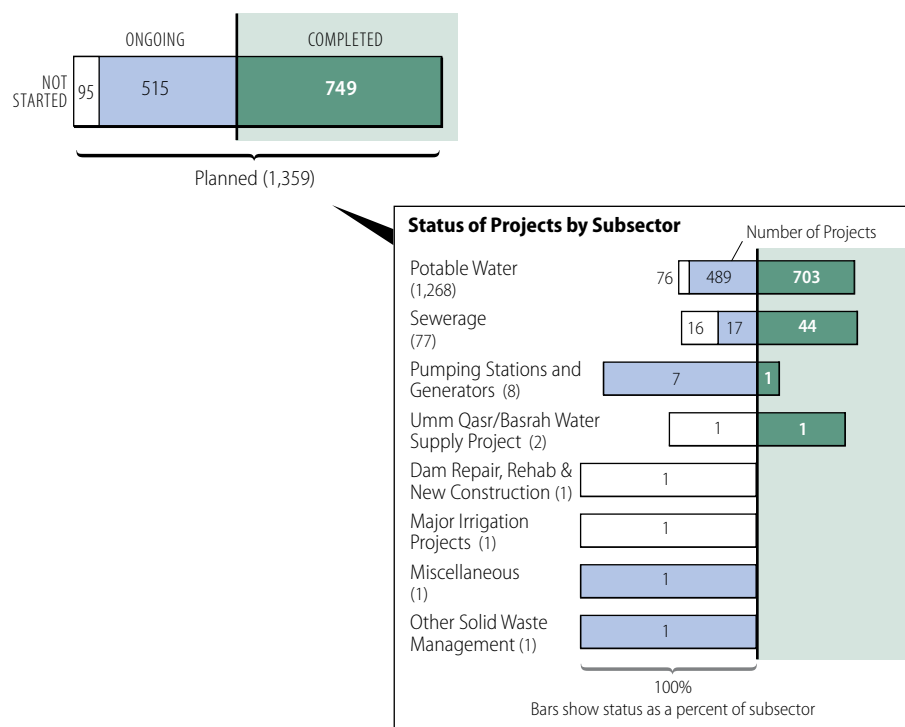




Figure 2-18
STATUS OF WATER PROJECTS
Number of projects
Source: IRMS – IRMO Rollup File,
06/30/06 & USAID Activities Report,
07/10/06



of the 157 programmed PW-90 projects were completed.¹⁰⁴ To date, 131 projects have been completed.¹⁰⁵ An additional \$50 million has been earmarked for another 100 small water projects.¹⁰⁶

Outputs of IRRF-funded Projects

As of June 30, 2006, the United States has repaired or rehabilitated 19 potable water treatment facilities and 9 centralized sewage treatment facilities.¹⁰⁷ The outputs of these IRRF-funded projects appear in Table 2-6, which shows the current capacity provided by completed U.S. water projects and the anticipated end-state capacity. With just under half of the water and sewerage projects still to be completed, it appears that the anticipated end-

state for water will be met and the end-state for sewerage may be exceeded.

Outcomes of IRRF-funded Projects in the Water Sector

To determine the outcome of U.S. projects, IRMO measures the number of people estimated to benefit from these projects. Table 2-7 summarizes data on the effects of U.S. projects relative to Iraqi access to water and sanitation services.

Before the war, it was estimated that somewhere between 9.5 and 14 million people had access to potable water.¹⁰⁸ U.S. projects have added an estimated 4.2 million people to this base—halfway to the anticipated end-state of an additional 8.4 million people. The United



CURRENT U.S. WATER PROJECT OUTPUTS AND ANTICIPATED END-STATE

OUTPUTS METRIC	CURRENT STATUS, AS OF 6/30/06	ANTICIPATED END-STATE (APRIL 2007)*
Water—Maximum Additional System Capacity	1.3 million cubic meters per day	2.5 million cubic meters per day
Sewage—Maximum Additional System Capacity	1.2 million cubic meters per day	1.2 million cubic meters per day

Sources: DoS, SIGIR data request, July 3, 2006.

*The estimated end-state is based on the estimated date for completion of water projects. All planned PCO projects will be completed by April 2007 (IRMO, Information Memorandum from Acting IRMO Director to Deputy Chief of Mission, April 19, 2006).

TABLE 2-6

CURRENT U.S. WATER PROJECT OUTCOMES AND ANTICIPATED END-STATE

OUTCOME METRIC	CURRENT STATUS, AS OF 6/30/06	ANTICIPATED END-STATE
Water—additional people potentially served at a standard level of service, considering actual system conditions	4.2 million people	8.4 million people
Sewage—additional people potentially served at a standard level of service, considering actual system conditions	5.1 million people	5.3 million people

Sources: DoS, SIGIR data request, July 3, 2006.

Table 2-7

States has now completed 55% of planned potable water projects.

Challenges

SIGIR continues to track a major ongoing challenge in the water sector, namely, sustaining U.S.-funded projects. As programs shift to Iraqi control, sustaining the operation of new projects has become a priority for U.S. agencies and contractors.

SUSTAINMENT

A 2005 GAO audit noted the challenge of sustaining U.S. projects in the water sector,¹⁰⁹ and a SIGIR project assessment this quarter at the Umm Qasr Canal found no evidence of routine maintenance or emergency repairs. A summary of the SIGIR project assessment 06-028 is in Section 3 of this Report.

In response to this challenge, a new \$110 million sustainment program was initiated for 2006. The Water Sector Sustainment Program (WSSP) includes “both operations and maintenance support and assistance and capacity development activities to ensure that U.S.-funded assets are operated effectively in the near term, while creating favorable conditions for sustained operation by the Ministry of Municipalities and Public Works, the Ministry of Water Resources, and Amanat Baghdad (Mayorality) over the long term.”¹¹⁰

The WSSP builds on these other completed sustainment projects:

- USAID’s Water Sector Institutional Strengthening Program (\$25 million)¹¹¹
- GRD-PCO’s Management Systems training program (\$14.5 million) for the Ministry of Municipalities and Public Works.¹¹²



Shark Dijlah water treatment plant, second largest in Baghdad

The WSSP is just beginning, and the program is scheduled to be completed in March 2007.¹¹³ Table 2-8 summarizes the types of assets that may be covered.

Ministerial capacity development is also a priority for sustaining U.S.-funded projects. The National Capacity Development (NCD) program covers ten ministries of the Iraqi

government, including the Ministry of Water Resources and the Ministry of Municipalities and Public Works. The NCD will include various training initiatives, including water law and international treaties, contingency planning, water quality monitoring, tariff reform, and management and human resources.¹¹⁴

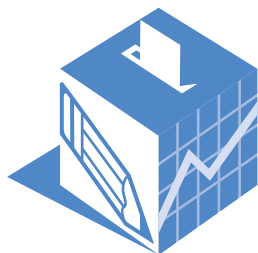
CURRENT WSSP ASSETS THAT MAY BE COVERED

ASSET CATEGORY	MMPW AND KURDISTAN REGIONAL GOVERNMENT	AMANAT BAGHDAD	MINISTRY OF WATER RESOURCES
Water Treatment Plants	22	4	0
Sewage Treatment Plants	6	3	0
Rural Water Projects	71	0	0
Pump/Lift Stations	19	TBD	0
Canals	0	0	1
Vehicles/Heavy Equipment	769	0	32
Generators	0	39	149
Learning Centers/Warehouses	24	0	0
Total	911	46	182

Sources: GRD-PCO, CY 2006 USG Water Sector Sustainment Program (WSSP), no date, p. 2.

TABLE 2-8





STATUS OF AGRICULTURE, DEMOCRACY, EDUCATION, AND PRIVATE SECTOR DEVELOPMENT

These are the highlights of this sector review:¹¹⁵

- These subsectors have IRRF 2 allocations of \$2.23 billion (See Figure 2-19); \$1.74 billion has been expended.
- 90% of projects have been completed in this sector, and only 1% have yet to start. Figure 2-20 shows construction projects in this sector by governorate.
- The democracy subsector recently received an additional \$100 million in Economic Support Funds (ESF) in the FY 2006 supplemental budget. This subsector continues to face challenges, particularly with the Provincial Reconstruction Teams (PRTs), which are intended to be the platform for many democracy activities throughout Iraq.
- In the education subsector, most project funding will be exhausted this quarter. Although several construction projects

were completed, security remains a constant challenge.

- Private sector development activities are focused on economic governance, trade, bank lending, capital markets, and microfinance activities.

IRRF-funded Activities in Agriculture, Democracy, Education, and Private Sector Development

Nearly 8,800 projects have been completed (90%) in this sector. The project completion rate is not evenly distributed among subsectors: agriculture and refugee assistance programs lag behind the sector completion rate. Figure 2-22 shows the status of projects in the sector.

By the end of this quarter, more than 95% of the sector's funding had been obligated, and

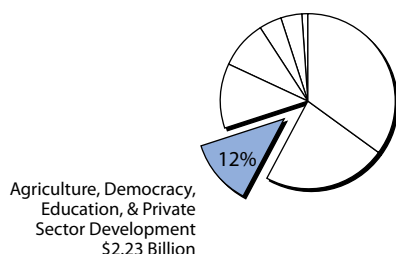


FIGURE 2-19
AGRICULTURE, DEMOCRACY, EDUCATION, AND PRIVATE SECTOR DEVELOPMENT SECTOR AS A SHARE OF IRRF FUNDS

% of \$18.44 Billion
Source: DoS Iraq Weekly Status Report, 06/28/06



AGRICULTURE,
DEMOCRACY, EDUCATION,
AND PRIVATE SECTOR
DEVELOPMENT

78% had been expended. Figure 2-21 shows the status of funds in this sector.

AGRICULTURE

Agriculture supports a rural population in Iraq of 7 million, provides employment to approximately 20% of the nation's population, and accounts for 8% of Iraq's GDP.¹¹⁶ This subsector, however, had low pre-war productivity and negative growth rates caused by years of poor policy decisions, sanctions, isolation, and previous wars.¹¹⁷

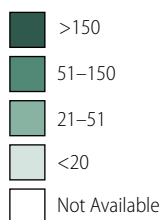
Post-war looting damaged a variety of government and private agricultural production and service facilities, especially in central and southern Iraq.¹¹⁸ USAID estimates that Iraq's grain yields are less than half the yields of

neighboring countries because of variable rainfall in the north, increasing soil salinity in the south, and years of poor planning.¹¹⁹ Addressing the subsector's short- and medium-term needs would cost approximately \$3.03 billion, according to 2003 World Bank estimates.¹²⁰

USAID is responsible for almost all IRRF funding for the agriculture subsector. The \$107 million Agriculture Reconstruction and Development Program for Iraq (ARDI) comprises the largest share of that funding. It is designed to help Iraqi farmers increase productivity and income. ARDI has four components:¹²¹

- revitalizing agricultural production
- generating income and employment through agro-enterprise and market development
- promoting rural finance

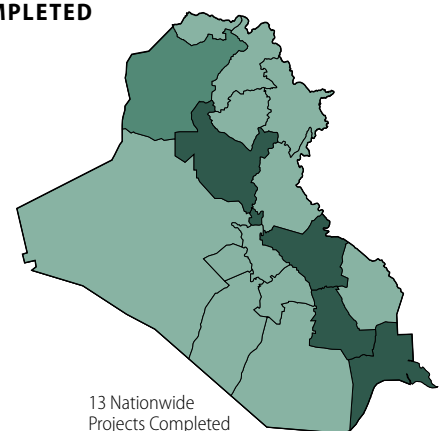
FIGURE 2-20
**AGRICULTURE, DEMOCRACY, EDUCATION,
AND PRIVATE SECTOR DEVELOPMENT
CONSTRUCTION PROJECTS BY
GOVERNORATE**
Number of Projects
Source: IRMS – IRMO Rollup File, 06/30/06 &
USAID Activities Report, 07/10/06



ONGOING



COMPLETED





AGRICULTURE,
DEMOCRACY, EDUCATION,
AND PRIVATE SECTOR
DEVELOPMENT

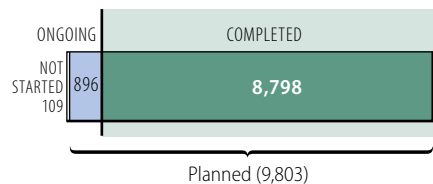


FIGURE 2-21
**STATUS OF AGRICULTURE, DEMOCRACY,
EDUCATION, AND PRIVATE SECTOR
DEVELOPMENT FUNDS**
\$ Billions
Source: DoS *Iraq Weekly Status Report*,
06/30/06

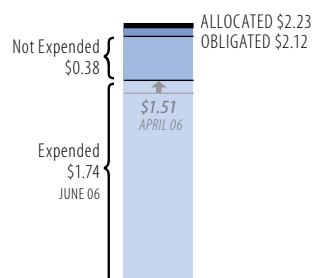
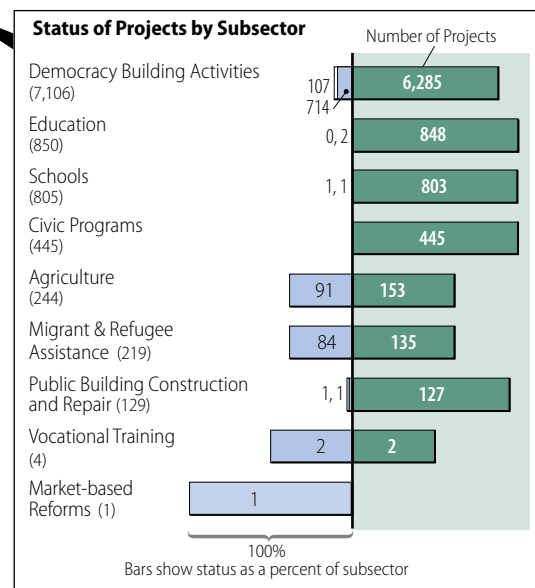


FIGURE 2-22
**STATUS OF AGRICULTURE, DEMOCRACY,
EDUCATION, AND PRIVATE SECTOR
DEVELOPMENT PROJECTS**
Number of Projects
Source: IRMS – IRMO Rollup File, 06/30/06 &
USAID Activities Report, 07/10/06



- reclaiming and improving the management of soil and water resources

The original ARDI contract was awarded in October 2003 with IRRF 1 funds, and it was later extended with IRRF 2 funds. Approximately \$101 million of the total contract ceiling of \$107 million has been obligated, and the program is expected to conclude by the end of December 2006.¹²² The entire \$4 million for the Iraq Marshlands Restoration Program has been

obligated and is expected to be fully expended by September 30, 2006. Multi-National Force-Iraq (MNF-I) is working with USAID to replicate and continue some ARDI programs, using CERP funding.¹²³

Agriculture Projects Completed and Underway

This section presents some of the completed activities and ongoing projects to improve Iraq's agriculture subsector. Current ARDI activities focus on increasing crop production,



AGRICULTURE,
DEMOCRACY, EDUCATION,
AND PRIVATE SECTOR
DEVELOPMENT

ARDI OUTPUTS:

Crop and Livestock Management	Demonstrated 40% average wheat-yield increases on one-hectare test plots in three northern governorates by using a cost-effective technical package. ^a
	Planted 43,500 date palm mother plants in 13 orchards. ^b
	Reconstructed 58 veterinary clinics serving more than 4.2 million animals and 118,500 breeders. ^c
Land Irrigation	As of May 1, 2006, IRMO reported that 31,000 hectares of land had been irrigated or drained; the U.S. target for the agriculture subsector is 422,000 hectares. ^d
	Rehabilitated irrigation infrastructure benefiting approximately 445,000 rural residents who occupy an estimated 320,000 acres of farmland. ^e
Training and Capacity Development	Trained Iraqi organizations to operate and maintain seed cleaners; these organizations use their new skills to operate the cleaners for Iraqi farmers in every governorate. This enabled more than 48,000 farmers to clean their saved seeds and treat them with fungicide to maintain seed health. This effort produced more than 31,500 tons of clean seed, which were then planted on more than 242,000 hectares of land. ^f
	Trained more than 215 mechanics, mostly in rural areas, as part of the tractor-repair program to improve infrastructure for repair and maintenance services for agricultural machinery. ^g
	Completed training for 12,600 farmers, public officials, and university staff in technologies for high-value cash crops, cereal grains, and livestock. ^h
	Ongoing and completed capacity development programs to train more than 800 public officials in strategy development, decision-making, and statistical surveys. ⁱ
Private Sector Development	Ongoing activities to develop and strengthen the capacity of 54 private associations, co-ops, and NGOs to implement programs benefiting the agriculture subsector, including training in strategic planning, project management and implementation, and business management. ^j
	Established a wholesale price information system in 18 major urban markets for dissemination to producers and merchants. ^k
Mechanical Repairs	Rehabilitated 3,170 tractors out of a goal of 5,000. ^l

^a USAID Agriculture Fact Sheet, June 2006.

^b USAID Agriculture Fact Sheet, June 2006.

^c USAID Agriculture Fact Sheet, June 2006.

^d IRMO, Water Sector Metrics, May 30, 2006.

^e USAID, "Iraq Economic Growth Portfolio," March 17, 2006, p. 10.

^f Portal Iraq, "Organizations in Iraq Learn about Agribusiness Planning," June 25, 2006.

^g USAID vetting comments, July 18, 2006.

^h USAID, "Iraq Economic Growth Portfolio," March 17, 2006; updated information provided to SIGIR from USAID on July 21, 2006.

ⁱ USAID Agriculture Fact Sheet, June 2006; follow-up data response from USAID to SIGIR on July 21, 2006, further explain these activities: "These activities include training Ministry of Agriculture extension agents (training of 172 agents from throughout Iraq complete and implementation of improved extension service underway); training MOA enumerators to conduct statistical surveys (several training courses and surveys completed throughout Iraq); working with multiple ministries to provide staff with training to implement an Agro-Ecological Zone mapping program and an improved Agro-meteorological network (training and implementation ongoing; activity touches all Iraq); and working with multiple Ministries to provide training and develop a Strategy for Water and Land Resources in Iraq (ongoing, activity touches all Iraq)."

^j USAID, "Iraq Economic Growth Portfolio," March 17, 2006, p. 10; USAID follow-up data response, July 21, 2006.

^k USAID Agriculture Fact Sheet, June 2006.

^l USAID vetting comments, July 18, 2006.

TABLE 2-9



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expanding market-oriented reforms, improving livestock management, and enhancing agriculture-related private sector development. These ARDI training activities promote efficient agricultural practices, cultivate an entrepreneurial spirit, and help Iraq's agriculture subsector evolve from a centralized model to one that is based on market principles.

Outputs of IRRF-funded Agriculture Projects

The ARDI program works directly with staff from the Ministry of Agriculture, presenting an "Iraqi face" and thus keeping security costs low.¹²⁴

According to USAID officials, ARDI's grants program for employment and income expansion has directly benefited more than 1.6 million people.¹²⁵ The ARDI program also provides employment to an estimated 29,000 rural residents. Table 2-9 presents the outputs of ARDI activities.

Outcomes of IRRF-funded Agriculture Projects

It is difficult to assess project outcomes in the agriculture subsector because the effects of these activities will become apparent only in the long run. Iraqi officials and farmers will need to make decisions about how to make the most effective use of Iraq's agricultural resources. IRRF projects have demonstrated that notable improvements are possible—for example, a dramatic increase in wheat production per hectare at test plots in three northern governorates. Increasing wheat production would help Iraq reduce reliance on imported

wheat. However, the scarcity of operating equipment makes it difficult to markedly improve short-term agricultural productivity. Most of the equipment and infrastructure is outdated and has not been serviced in years. Therefore, recapitalization remains key to increasing productivity.

Challenges

Rehabilitating Agricultural Infrastructure and Productivity

Security has accounted for only 5-8% of ARDI's total budget, partly because the program employs mostly Iraqis at its project sites. Nevertheless, the lethal environment has slowed the rate of investment in this subsector.¹²⁶

Developing Market-friendly Laws and Policies

During the previous regime, agriculture was centrally managed, which generated inefficiencies across the subsector. Moving to a market-driven system will require substantial training, coordination, capacity building, investment capital, and mercantile infrastructure development. This is being partly addressed as the Iraqi government moves to gradually reduce food subsidies, as required in its Stand-By Arrangement with the IMF.¹²⁷ Reducing these subsidies should help create a more rational market for agricultural products and allow farmers to respond to market demand by increasing production accordingly. An increase in employment in processing and packaging agricultural output should follow.¹²⁸



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DEMOCRACY

The November 2005 *Strategy for Victory* calls for an Iraqi nation that can provide for its own security and eliminate radical Islamic terrorist groups. The July *Section 2207 Report* reports that just over \$1 billion from the IRRF 2 has been allocated to democracy-building activities, almost all of which has been obligated.¹²⁹

The FY 2006 Supplemental awarded \$50 million in ESF to promote democracy, the rule of law, and reconciliation. An additional \$50 million in ESF was awarded to USAID for continued support of its Community Action Program (CAP) in Iraq, \$5 million of which will be made available for the Marla Ruzicka Iraqi War Victims Fund.¹³⁰

Democracy Projects

Most IRRF funds in this subsector have been used to support the national elections, the drafting of the constitution, and the conduct of the constitutional referendum. Concurrently, there has been an effort to strengthen Iraq's new democracy at the grassroots level by bolstering the legitimacy of the political system, developing institutional capacity, building an independent and professional media,¹³¹ and strengthening civil society organizations.

This quarter, the United States continued to support IRRF-funded local democracy-building initiatives, working with the Iraqi Provincial Reconstruction Development Committees (PRDCs), which are supported by coalition Provincial Reconstruction Teams (PRTs). The PRDCs comprise local officials and community

leaders in 15 governorates who are empowered to make decisions about local reconstruction priorities. The PRTs help build the capacity of government officials to plan, execute, monitor, and evaluate government activities.¹³²

Five PRTs are currently operating in Ninewa, Babylon, Tameem, Baghdad, and Anbar province.¹³³ Three more PRTs are expected to begin work over the next few months in Erbil, Thi-Qar, and Basrah under Korean, Italian, and British leadership, respectively.¹³⁴

Outputs of IRRF-funded Democracy Projects

Delays in deploying PRTs to all participating governorates have slowed efforts to develop provincial government capacity. The security situation continues to pose a significant challenge to deploying PRTs, especially in the areas that could benefit most from their presence.¹³⁵

Efforts to engage at the local level of governance have been more successful. The CAP, for example, has operated throughout Iraq since 2003 to promote democracy and help mitigate conflict at the local level. This program has established more than 1,300 community action groups (CAGs) throughout the country, creating more than 2 million short-term jobs.¹³⁶ CAP emphasizes direct involvement by local Iraqis. CAGs of 10-12 citizens decide which projects should be implemented for their communities, overseeing the process with the assistance of outside advisors from the CAP program.

The Iraq Civil Society Program (ICSP) has issued 500 small grants, totaling more than \$7



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An Iraqi farmer working in his fields outside Samarra

million, for initiatives in civil society, human rights, civic education, anticorruption, and women's advocacy.¹³⁷ Many initiatives have focused on developing a more robust media in Iraq. For instance, 1,037 journalists, 20 media managers, and 9 journalist unions have received ICSP training to help improve their reporting capabilities.¹³⁸

In mid-May 2006, the National Democratic Institute (NDI) trained parliament members and staff on basic parliamentary procedures and processes, committee structures, and issues related to federalism.¹³⁹ At the end of May 2006, NDI held a series of training seminars for Iraqi officials and NGO members.¹⁴⁰

Like NDI, the International Republican Institute (IRI) has been engaged in a multi-

faceted democracy program in Iraq since 2003. During this quarter, IRI's civil society partners conducted national campaigns to promote national reconciliation, which included workshops, printed materials, and media interviews. IRI's governance program continued to support the Iraqi Council of Representatives.¹⁴¹

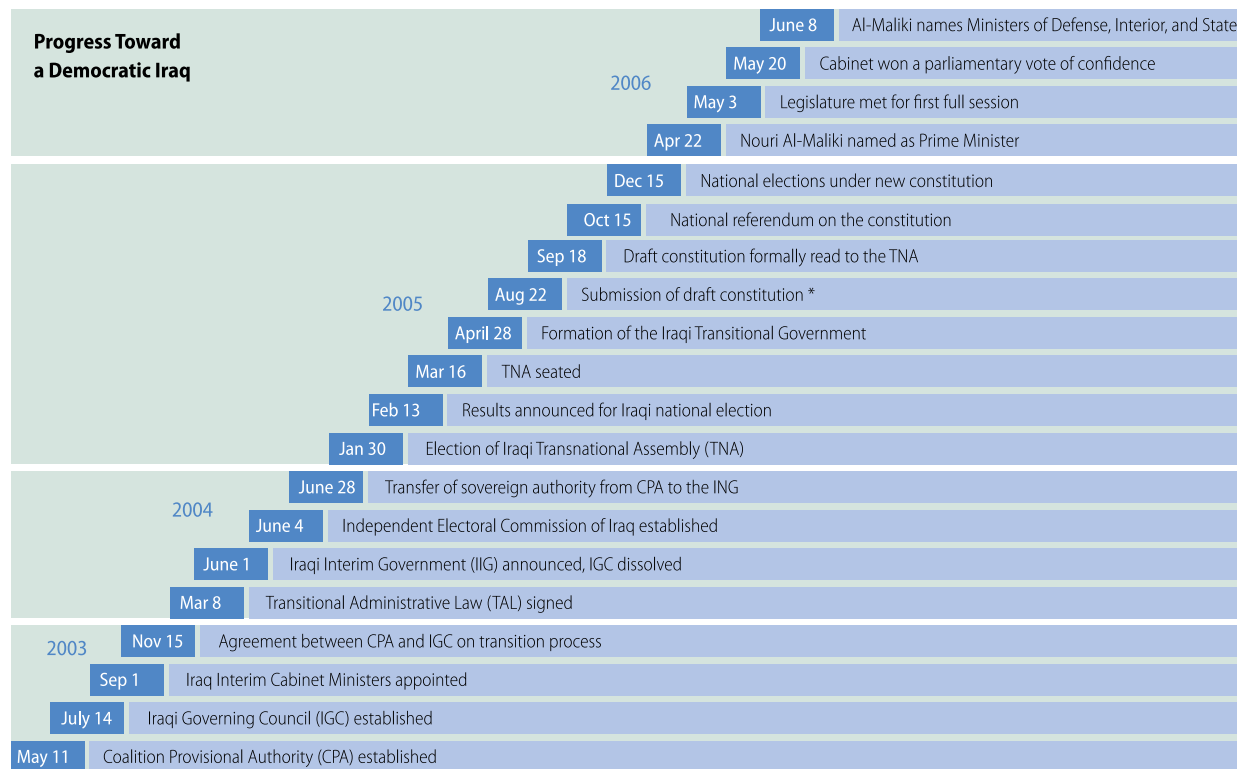
Outcomes of IRRF-funded Democracy Projects

At the end of 2005, Iraq had reached significant political milestones identified under the Transition Administrative Law, including:

- the election of the Iraqi Transitional National Assembly
- the national referendum on the constitution
- the December national elections¹⁴²



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*Pursuant to the TAL, the TNA extended the deadline from August 15 until August 22

FIGURE 2-23

MILESTONES OF PROGRESS TOWARD A DEMOCRATIC IRAQ

Source: 4/22, 5/20: DoD "Measuring Stability and Security in Iraq", May 26, 2006, p. 8.

5/3: DoS Iraq Weekly Status Report, May 3, 2006, p. 8.

6/8: DoD Update on June 8, 2006, defenselink.mil.

All Other Metrics DoD 9010 Report, February 2006.

Progress continued through last quarter and into this quarter: on April 22, the Council of Representatives elected the President and Vice Presidents, and the Presidency Council nominated the Prime Minister-designate.¹⁴³ On May 3, 2006, the legislature met for its first full session,¹⁴⁴ and on May 20, the Prime Minister-designate named his cabinet and received a parliamentary vote of confidence for all posi-

tions except the Ministers of Defense, Interior, and the State Minister of National Security.¹⁴⁵ These positions were filled on June 8, 2006.¹⁴⁶ Democracy programs funded by the United States and other donors significantly contributed to this progress. Figure 2-23 shows Iraq's milestones in democratic progress.

The full effects of democracy-building activities will be apparent only in the long run.



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Future milestones include implementing the National Reconciliation Plan, passing enabling legislation, establishing a constitutional amendment process, and holding provincial elections.¹⁴⁷

Challenge Areas

Governing Effectively and Cooperatively

Earlier this year, GAO cited five challenges that face the newly formed government: “building effective national and provincial governments, stemming corruption, disbanding militias, resolving disputes on boundaries, and ownership of future oil fields.”¹⁴⁸

GAO also pointed out that, although strengthening “national and provincial institutions is a key step in improving governance and supporting efforts to build Iraqi self-reliance and defeat the insurgency,” coalition assessments show that Iraqi ministries have limited capacity to provide government services to the people. These assessments showed “limitations in managers’ skills and training, weak technical expertise, outdated work processes and procedures, and an inability to identify and articulate strategic priorities.” In addition, Iraqi provinces also have limited capacity to provide governmental services.¹⁴⁹

Security

The security situation has slowed progress in all IRRF-funded democracy efforts. Security for PRTs remains a major constraint to effective democracy-building activities throughout Iraq. For example, one contractor—tasked with

promoting civic participation in reconstruction and local development—was forced to leave Basrah on March 31, 2006, because of security threats to workers. NDI also reported that approximately one-third of its funding must go to security needs.¹⁵⁰

EDUCATION

This section presents the key projects, results, and challenges in the education subsector.

Education Projects Completed and Underway

USAID officials report that their non-construction education projects in Iraq ran out of funding in June 2006. The only programs that will continue are the Accelerated Learning Program and a youth education job skills program. As reported last quarter, education activities previously focused on building schools, training teachers, and distributing textbooks. With these programs complete, education activities will now shift to building the capacity of the ministry—part of the overall U.S. strategy.¹⁵¹ Future funding and activities in this subsector will come indirectly through capacity development funding.

Outputs of IRRF-funded Education Projects

Until the 1980s, the education system in Iraq was a model for the region. However, the system deteriorated dramatically because of a lack of resources and the politicization of the system.¹⁵²



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Before the 2003 conflict, there were more than 14,000 schools in Iraq; an estimated 11,000 of those needed repairs or refurbishments.

As of June 30, 2006, GRD-PCO had completed rehabilitation work on 803 schools. USAID reported that 741 schools have been completed to date with IRRF 2 funding, an increase of 156 from last quarter.¹⁵³ Thus, 1,544 schools have been completed with funding from IRRF 2, while 5,263 have been completed with funding from other sources (DFI, CERP, etc). See Table 2-10 for more information on these projects.

Training is a major component of education projects. Last quarter, USAID reported it had trained 47,695 teachers since 2003. Also, 60,754 teachers have been trained in this \$5.6 million program.¹⁵⁴ USAID has also provided hundreds of thousands of desks, chairs, and chalkboards, and more than 3 million school kits.¹⁵⁵

Challenges in the Education Subsector

This subsector faces several challenges:

- Security remains a constant challenge. The Ministry of Human Rights Inspector General said in an interview with SIGIR that 191 college professors have been killed and 85 have been kidnapped.¹⁵⁶
- Coordinating the many agencies involved in education relief and reconstruction efforts—continues to be difficult.
- Most funding will expire this quarter as U.S. priorities shift the focus from education-specific programs to government-wide capacity development efforts.¹⁵⁷

REFUGEES, HUMAN RIGHTS, AND GOVERNANCE

After the war, more than 500,000 Iraqis were estimated to reside in neighboring countries, and more than one million Iraqis were internally displaced.¹⁵⁸ Through the IRRF, the United States allocated \$186 million for migration and refugee assistance. At the end of this quarter, \$167 million was obligated. The funding is being used to meet the needs of refugees and other conflict victims, including internally displaced persons.¹⁵⁹

The UN High Commissioner for Refugees and the International Committee of the Red Cross are helping build the capacity of Iraqi institutions, including the Ministry of Migration and Displacement. This quarter, funding was approved for eight new projects totaling more than \$15 million. The projects will provide critical, life-sustaining assistance to refugees, returnees, and other displaced persons.¹⁶⁰

The United States also has allocated \$10 million to support the Commission for the Resolution of Real Property Disputes.¹⁶¹ The United States allocated \$15 million to promote human rights in Iraq; to date, \$13 million has been obligated.¹⁶²

PRIVATE SECTOR DEVELOPMENT

This section presents the key U.S. projects in private sector development and a general overview of the outputs of these projects.



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Projects Completed and Underway

\$805 million in IRRF 2 funds was allocated to private sector development, of which \$360 million was required to offset Iraqi debt forgiven by the United States.¹⁶³ Of the remaining \$445 million, more than \$100 million was allocated to the agriculture subsector, and the remainder went to economic governance and private sector development programs. USAID manages the vast majority of the funds in all three of these subsectors. USAID's private sector development funds (other than agriculture) are concentrated in two major contracts: one for economic governance and one for private sector development.

The IRMO Office of Private Sector Development (OPSD), established under the CPA, was allocated \$64 million in IRRF 2 funds. Some of these funds have been used to support a micro-lending program, which has made 29,000 loans, totaling \$57 million, with less than a 1% delinquency rate. This office has also worked

on a number of other private sector initiatives, including the Iraq Securities Commission, Iraq Stock Exchange, and a study of economic zones.¹⁶⁴

The Overseas Private Investment Corporation has provided \$100 million of its own funds for a middle-market loan program managed by an international NGO, which has expended \$22.1 million and has approved another \$10.7 million.¹⁶⁵

Economic Governance

The USAID Economic Governance (EG) program is designed to help "create an enabling environment for private sector development."¹⁶⁶ This is particularly important for an economy like Iraq's, which has been constrained by government subsidies and state-owned enterprises for decades. The \$103 million contract for the program was intended to last through September 2007, but funding at the current rate of expenditure will run out in August 2006.¹⁶⁷

SCHOOLS REPAIRED BY U.S. RECONSTRUCTION PROJECTS

TOTAL SCHOOLS (2003)	SCHOOLS NEEDING REPAIR (2003)	SCHOOLS COMPLETED	SCHOOLS IN PROGRESS	SCHOOLS NOT YET STARTED
14,121	11,000	2358 – USAID IRRF 1 741 – USAID IRRF 2 803 – PCO IRRF 2 1365 – MNF-I	N/A – USAID IRRF 1 77 – USAID IRRF 2 1 – (PCO) N/A – MNF-I	N/A – USAID IRRF 1 N/A – USAID IRRF 2 1 – PCO IRRF 2 N/A – MNF-I

Sources: Department of State, *Section 2207 Report Executive Summary*, July 2006, p. 17 (Total Schools and Schools Needing Repair, MNF-I data); IRMS data as of June 30, 2006 (PCO projects); USAID response to a SIGIR data call, July 21, 2006 (all other metrics).

TABLE 2-10



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The EG program involves working with Iraqi ministries to help them reform outdated macroeconomic policies—fiscal, tax, customs, budget, insurance, pensions, and others. The program also includes capacity development for Iraqi officials. These efforts feed into the overall goal of helping Iraq comply with the Stand-By Arrangement with the International Monetary Fund. The EG program involves 35 international advisors and more than 100 Iraqi advisors who work directly with ministry officials.¹⁶⁸ The new customs modernization plan, recently approved by the Iraqi Minister of Finance and ready for implementation by the General Commission for Customs, was largely the result of U.S. experts working with Iraqi counterparts under the EG program.¹⁶⁹

Private Sector Development Program (Izdihar)

The private sector development program, also referred to as Izdihar,¹⁷⁰ focuses on trade policy, capacity building within business associations and the banking sector, investment promotion, accounting and auditing, capital markets, and microfinance activities. Similar to the EG program, Izdihar experts advise Iraqi ministers and staff.¹⁷¹

Izdihar has implemented programs to increase lending opportunities for Iraqis. It helped create the Iraq Company for Bank Guarantees (ICBG), which will offer loan guarantees to private banks. Thus far, Izdihar has awarded nearly \$9 million of \$17 million in grants to microfinance institutions.¹⁷²

Outputs of U.S. Projects in Private Sector Development

U.S. projects have generated some clear outputs in this subsector:

- The 2003 currency exchange in Iraq under CPA—a combined effort of Iraq, the United States, and the United Kingdom—was universally heralded as a success. As part of the EG contract, funded by IRRF 1, U.S. contractors handled much of the logistics for printing the currency, flying it in into the country, and distributing it to local banks.¹⁷³
- Iraq continues to comply with the Stand-By Arrangement with the IMF, which calls for a series of economic reforms, including the gradual removal of subsidies on oil, electricity, and food. Experts in the EG and Izdihar programs have helped the Iraqi government develop strategies to meet the SBA requirements.¹⁷⁴

Over the past three years, Iraq's per capita GDP has increased substantially, inflation is currently decreasing, and new business registrations are up. However, unemployment, one of the key targets of U.S. programs, remains high.

Challenges in Private Sector Development

Stimulating the private sector is made more difficult by the same challenges facing the essential infrastructure sectors, namely security, changing leadership, and the antiquated fiscal and economic policies that these private sector development programs are attempting to reform.



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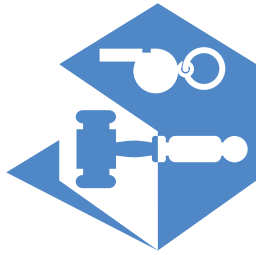


Crops along the Tigris

- The security situation affects private sector programs in the same way it affects infrastructure rehabilitation: contractors must travel in convoys to ministries and can become targets, which slows progress and increases costs. Security is also a drag on much-needed foreign investment and slows the movement of capital and labor inside the country as well.¹⁷⁵ USAID also reports a mass exodus of Iraqis from the business community, in part because of the security situation. These emigrants come from the educated middle class of Iraq; they are the primary partners and recipients of private sector development programs.¹⁷⁶
- Constantly changing governments have made it difficult to sustain or implement hard-fought economic reforms. For example, a tax modernization plan that U.S. contractors helped develop was finalized in fall 2004 but still has not been implemented.



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SECURITY AND JUSTICE

This sector review examines U.S. spending to support Iraq's military forces, police, and justice infrastructure. The rule of law is an essential component to the success of reconstruction efforts in Iraq. Iraq's ability to deploy cohesive military and police forces under the control of capable ministries is critical to the country's economic and political stability.

These are highlights of IRRF- and ISFF-funded activities in this sector:

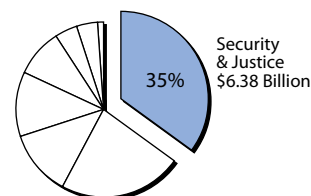
- More U.S. funds have been committed to security and justice than any other reconstruction sector. Almost \$12 billion in IRRF 2 and ISFF has been allocated.
- As of June 28, 2006, 85% of the \$6.38 billion IRRF allocation had been expended. Figure 2-24 shows sector funds as a percentage of the IRRF.
- As of June 25, 2006, only 52% of the \$5.39 billion ISFF allocation had been expended.
- An additional \$3.007 billion was appropriated to the ISFF in the FY 2006 Emergency Supplemental Appropriation. This funding will remain available until September 30, 2007.¹⁷⁷
- More than 268,000 military and police personnel have reportedly been trained, equipped, and fielded.
- More than 1,200 facilities have been completed, including police stations, fire stations, courts, border forts, and army facilities.

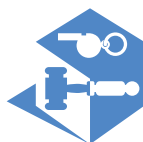
SIGIR has a number of ongoing audits related to activities in this sector, including one in response to a request from the Chairman of the U.S. Senate Armed Services Committee for a review of the Iraqi Security Forces logistics capability. SIGIR is also conducting a review of the Iraqi Police Training Program Support and Equipment under Task Order 0338.

Activities in the Security and Justice Sector

As the number of trained and equipped Iraqi security forces approaches the targets set by coalition and Iraqi officials, activities in this

Figure 2-24
**SECURITY AND JUSTICE SECTOR
AS A SHARE OF IRRF FUNDS**
% of \$18.44 Billion
Source: DoS *Iraq Weekly Status Report*, 06/28/06





SECURITY AND JUSTICE

sector have shifted to improving logistical capabilities and leadership in the Ministries of Defense and Interior. Training Iraqi police forces will continue to be an important priority throughout 2006.

Funding Status of the Security and Justice Sector

Approximately 85% of IRRF 2 funds for military and police forces has been expended. Only 52% of original ISFF funding has been expended, as of June 25, 2006. An additional \$3 billion was approved by Congress in the FY 2006 Supplemental for ISFF. See Figures 2-25 and 2-26 for the status of IRRF and ISFF sector funds.

Programs and Activities Completed and Underway

IRRF 2 projects focus on facilities construction and refurbishment. For a detailed list of projects funded by IRRF 2, see Figure 2-27.

MILITARY/POLICE FORCE DEVELOPMENT AND SUPPORT

Work in this sector has focused on building military and police forces. The effort has resulted in more than 268,000 trained and equipped military and police personnel.¹⁷⁸ The initial force generation plans for the Ministries of Interior and Defense are expected to be completed by the end of 2006 when the effort will shift to replacing force losses.¹⁷⁹

Figure 2-25
STATUS OF ISFF FUNDS IN THE SECURITY AND JUSTICE SECTOR
\$ Billions
Source: DoS Weekly Financial Update, 06/25/06

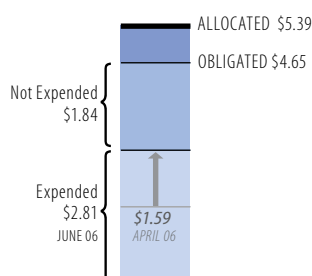
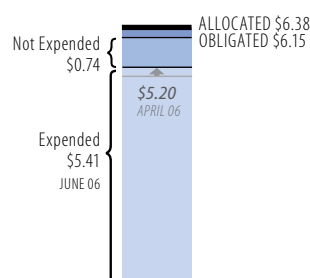


Figure 2-26
STATUS OF IRRF FUNDS IN THE SECURITY AND JUSTICE SECTOR
\$ Billions
Source: DoS Iraq Weekly Status Report, 06/28/06



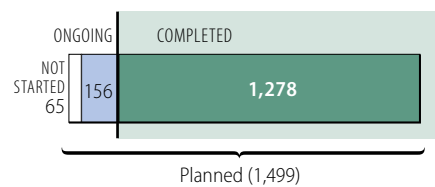
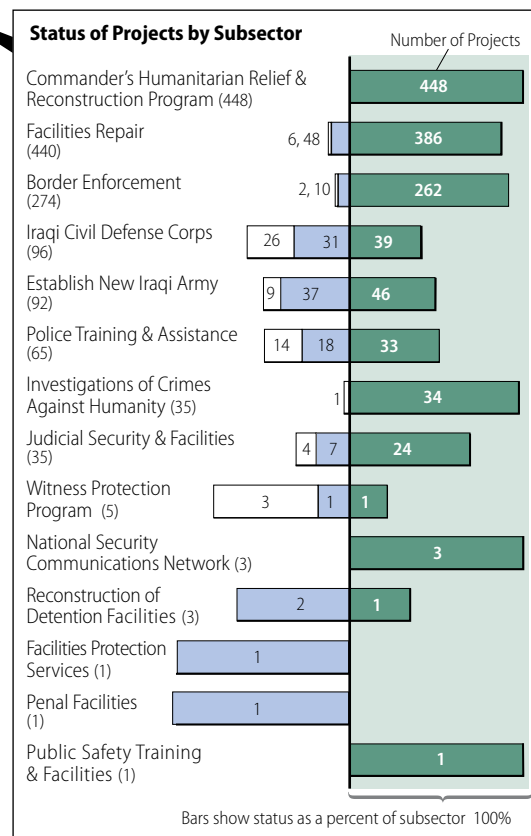


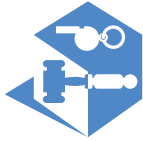
Figure 2-27

STATUS OF SECURITY AND JUSTICE PROJECTS

Number of projects

Source: IRMS – IRMO Rollup File, 06/30/06 & USAID Activities Report, 07/10/06





SECURITY AND JUSTICE

CONSTRUCTION

IRRF 2 has funded construction and rehabilitation of border forts, fire stations, police stations, public safety training academies, prisons and corrections facilities, courthouses, and witness-protection facilities.¹⁸⁰ The last IRRF-funded construction project in the security and justice sector is scheduled to be completed by December 2007.¹⁸¹ Figure 2-28 shows construction activity in this sector by governorate.

Construction on the Provincial Police Headquarters in Mosul has suffered major delays. The contractor failed to correct deficiencies and complete tasks outlined by the contract, which was recently suspended, pending a Termination for Default. In April, this project was reported to be 98% complete, but as of July 14, only 50% of work was reported as being finished.¹⁸² Renovations at the Domies Police Station in Kirkuk were completed this

quarter,¹⁸³ providing increased security to an economically crucial oil-producing region.

Work on the Baghdad Police College (formerly the Baghdad Public Safety Training Academy) project was completed on June 7, 2006. Renovations on the Al-Zab Courthouse in Kirkuk, which began in October 2005, are now 99% complete.¹⁸⁴

The Nasiriyah Correctional Facility, currently 38% complete, has encountered a variety of construction obstacles related to inadequate workforce levels, financial problems, and security concerns at the site. The facility was initially slated to have the capacity to hold 4,400 inmates, but that was later descope to a capacity of only 800, with the possibility of increasing to 1,200. This project was expected to be completed by August 2006, but that date has slipped to January 2007. The design-build contract for Nasiriyah was canceled in July 2006 and will be solicited again as a fixed-

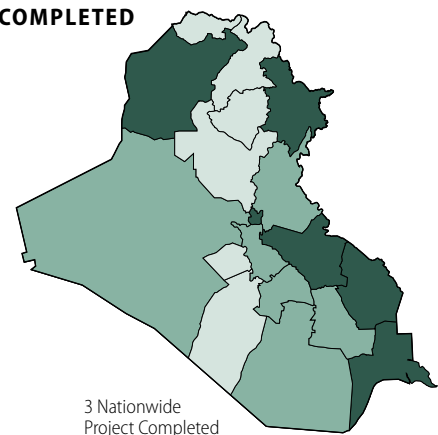
Figure 2-28
SECURITY AND JUSTICE CONSTRUCTION PROJECTS BY GOVERNORATE
Number of projects
Source: IRMS – IRMO Rollup File, 06/30/06 & USAID Activities Report, 07/10/06

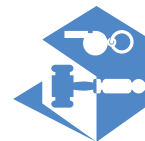


ONGOING



COMPLETED





price contract.¹⁸⁵ This correctional facility is the subject of a SIGIR inspection, summarized in Section 3 of this Report.

On December 24, 2004, construction work began at another prison, the Khan Bani Saad Correction Facility. The facility was designed to house at least 1,800 medium/maximum security inmates, with the potential to hold as many as 3,600 prisoners. In mid-June, GRD-PCO cancelled this design-build contract because of constant schedule delays and cost overruns.¹⁸⁶ Iraqi contractors will complete the Khan Bani Saad Facility through a fixed-price contract funded by the IRRF. It is expected to be completed in December 2007.¹⁸⁷

To date, 262 border forts have been constructed, 10 are ongoing, and 2 have yet to begin. SIGIR limited on-site inspections revealed significant problems with the quality of work performed and the adequacy of maintenance for the facilities. These on-site inspections assessed 12 new border forts and 9 MNSTC-I border forts. For summaries, see Section 3 of this Report.

NON-CONSTRUCTION INITIATIVES

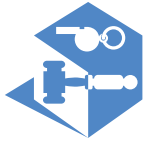
Several initiatives are in progress to promote oversight and transparency in the security and justice sector, including continued funding and development of the Commission on Public Integrity (CPI), which is tasked to detect and investigate alleged illegal activities and organizations. CPI is developing a capacity to combat corruption, with 180 active investigators, more than 1,000 personnel, and four provincial offices.¹⁸⁸

The Department of Justice has been working with DoS to support the function and expansion of the Central Criminal Courts of Iraq (CCCI), in addition to advising and training Iraqi judges. In mid-June, the American Bar Association provided training in judicial leadership and case management to 20 judges and court administrators.¹⁸⁹

Although the CPI has referred 1,370 cases to the CCCI, only 40 of these cases have yielded convictions; 106 cases were rejected, and CPI is currently appealing them.¹⁹⁰

Together with DoS OIG, SIGIR initiated a survey of the Joint Anticorruption Program.¹⁹¹ SIGIR found that the U.S. government has been working with the Iraqi government to establish organizations, systems, training, and an environment to increase trust and confidence in the Iraqi government and to increase the transparency and accountability of overall government operations. However, these efforts have not been focused or well-coordinated, and SIGIR notes that total funding for ongoing and planned U.S. government expenditures on anticorruption activities has been modest. Total funding for ongoing and planned anticorruption activities through June 15, 2006, was approximately \$65 million, or less than .003% of total IRRF 2 funding to date. This review is in Section 3 of this Report.

The Advanced First Responder Network (AFRN) is intended to support public security initiatives in Iraq. DRSO reports to SIGIR that the project has been turned over to the Ministry of Interior.¹⁹² SIGIR's audit of the project, in Section 3 of this Report, indicates that the



SECURITY AND JUSTICE

system is fundamentally flawed.¹⁹³ The AFRN project has not yet produced:

- an effective nationwide first-responder communication, command, and control system
- an efficient means to dispatch and direct first responders at the governorate level

Outputs of Programs Funded by IRRF 2 and ISFF

More than 268,000 Iraqi military and police forces have been trained and equipped for security operations:

- 116,100 Iraqi Army, Navy, and Air Force personnel¹⁹⁴
- 152,300 police, highway patrol, and other Ministry of Interior officers¹⁹⁵

The coalition and the Iraqi Ministry of Interior intend to field 188,200 trained and equipped security personnel by the end of 2006.¹⁹⁶ The force-generation plan for Iraqi forces under the Ministry of Defense proposes an end-strength of approximately 137,500 soldiers.¹⁹⁷ To determine the readiness of Iraqi security and police forces, the coalition uses the Transition Readiness Assessment (TRA) process.¹⁹⁸

As of June 26, 2006, 106 Iraqi Army combat and Special Operations battalions, 8 Strategic Infrastructure Battalions, and 28 police battalions were conducting counter-insurgency operations.¹⁹⁹ Despite these promising numbers, DoD reports that it will take time before a significant number of units can be assessed as fully independent.²⁰⁰

TRAINING INITIATIVES

The 2006 Training Plan for the Ministry of Interior establishes common training standards and emphasizes human rights, ethics, and the rule of law. It is expected that the training academies will be turned over to Iraqi control by the end of 2006.²⁰¹ Iraqi police recruits currently receive 32 hours of human rights and rule-of-law training as part of the 10-week police basic course. For a status update of some of the training programs and initiatives currently underway, see Table 2-11.

The judicial training program is projected to reach 1,100 judges by January 2009—100 fewer than the number deemed necessary for Iraq.²⁰² Also, to mitigate threats to judges, U.S. marshals are training Iraqi security teams to protect members of the judiciary.²⁰³

Outcomes of Programs Funded by IRRF and ISFF

Security remains by far the most significant challenge facing all sectors of Iraq reconstruction. Many donor countries have cited risks to staff and security costs as the main reasons for delays in carrying out their pledges.²⁰⁴

MINISTERIAL CAPACITY DEVELOPMENT

As the initial force-generation plans for the Ministry of Defense and the Ministry of Interior approach completion, the emphasis has shifted to developing Iraq's institutional capacity to direct, support, and sustain security forces.²⁰⁵ Developing the civilian functions in



the Ministry of Defense is essential if the Iraqi military hopes to operate and sustain itself without coalition support

According to DoD, “an integrated and coordinated effort to ensure that key ministerial functions develop commensurate with those of the Iraqi Armed Forces has made progress over this quarter.”²⁰⁶ In February, MNSTC-I awarded a contract to build ministerial capacity. Although some progress was made, many external factors have slowed progress, leading to only modest success for this initiative. These factors were largely security-related, including the intimidation and assassination of Iraqi officials.

ANTICORRUPTION

The anticorruption initiatives of the U.S. Embassy in Iraq and the Iraqi government

have experienced several challenges—which are addressed in a SIGIR audit summarized in Section 3. The Inspector General for the Ministry of Human Rights explained to SIGIR officials that, although inspectors general are reducing corruption at the lower levels of ministries throughout the government, they still lack the strong laws and government to effectively combat corruption at higher levels.²⁰⁷

INFRASTRUCTURE SECURITY

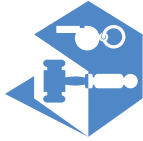
The establishment of Strategic Infrastructure Battalions (SIBs) has improved oil infrastructure security by providing some security presence along the northern oil pipelines to deter criminals and saboteurs. With the introduction of partnership arrangements with coalition and Iraqi Army Forces, the capability of the SIBs improved significantly during the last quarter.

IRAQI POLICE TRAINING PROGRAMS

PROGRAM	STATUS
Basic Police Academy (BPA)	More than 9,500 recruits completed the Basic Police Academy program (10 weeks) this quarter. Nearly 600 recruits graduated from the 3-week Transition Integration Program (TIP), which gives police officers who served under the Saddam regime skills training and instruction in human rights and rule of law.
6-month Police Officer Academy	For current police officers with higher education; 285 new police lieutenants graduated on March 30, 2006.
9-month Police Officer Academy	For current police officers; 336 new police lieutenants are enrolled in the course that started on April 16.
3-year Police Officer Academy	Will begin in October 2006 with up to 1,000 new officer candidates.
“Sergeants-to-Officer” Course	100 students graduated on March 30, 2006; a second course began in April 2006.
Former Officer Course (FOC)	One-month course that provides training in human rights, ethics, and counter-insurgency operations; 1,032 personnel expected to complete the course during this reporting period, and another 420 in the next reporting period.

Sources: DoS Section 2207 Report, Appendix 1, July 2006.

TABLE 2-11



SECURITY AND JUSTICE

Challenges

INSURGENCY AND GENERAL INSTABILITY

In late April, GAO reported that “[a]lthough it is difficult to quantify the costs and delays resulting from poor security conditions, both agency and contractor officials acknowledged that security costs have diverted a considerable amount of reconstruction resources and have led to canceling or reducing the scope of some reconstruction projects.”²⁰⁸ The Inspector General of the Ministry of Human Rights told SIGIR in an interview that kidnappings, killings, corruption, and overall security are all getting worse.²⁰⁹ This violence affects every aspect of the reconstruction effort. The UN reported that in May 2006, 22 doctors, nurses, and non-medical staff were killed, and another 50 were wounded. Continued attacks against teachers, professors, and students have resulted in a flight of academics and intellectuals from Iraq. The UN cites the High Judicial Council’s assessment that, since April 2003, at least 13 judges have been killed.

MILITIA INFILTRATION AND SECTARIAN TENSION

The destructive role that militia groups play in Iraqi society is emerging as a challenge to the nation’s stability. GAO reported in late April that:

According to a March 2006 State Department survey, Iraqis have become increasingly concerned that civil war may break out. Iraqis in Baghdad and the central and northern Sunni areas have lost confidence in the ability of Iraqi army and police to improve the security situation. At the same time, support for the armed resistance increased in some Sunni areas, and Iraqis in Shi’a areas expressed confidence in two large Shi’a militias, the Badr Organization and the Mahdi Army.²¹⁰

On May 30, the Prime Minister declared that pro-government party militias would not be exempt from his plan to disband irregular armed forces. He offered favorable treatment to armed groups that resisted the former regime, over those that organized after March 2003.²¹¹ A plan is reportedly in development to assist Iraqi leaders in addressing the militia challenge simultaneously at the local, provincial, and national levels.²¹²

INFRASTRUCTURE SECURITY

Even though attack trends against critical infrastructure in the north are down, insurgent attacks and sabotage have taken a significant toll on the northern pipelines. SIGIR has produced a classified report on infrastructure security, detailing the challenges facing Iraq’s oil and electricity infrastructure and recommending steps to improve infrastructure security.

SECTOR REPORT



HEALTH CARE SECTOR

U.S. reconstruction spending in this sector has focused on building, rehabilitating, and equipping medical facilities, as well as providing immunization, training, and other health services.

These are the highlights of the health care sector report:

- The sector has received IRRF 2 allocations of \$750 million (see Figure 2-29), and more than 65% (\$490 million) had been expended by the end of this quarter. Figure 2-30 shows the location of ongoing and completed health care construction projects by governorate.
- More than 80% of projects have been completed, but progress has been significantly impeded by security and management problems.
- Of the originally planned 150 Primary Healthcare Centers (PHCs), 6 have been delivered, and only 2 are fully operational.²¹³
- Of the 25 hospital rehabilitation projects planned, only 13 have been completed.²¹⁴ The design-build contract covering eight of the remaining projects was cancelled, and the work will be completed under a series of fixed-price contracts, which have been re-awarded to Iraqi firms.

IRRF-funded Activities in the Health Care Sector

As of June 28, 2006, more than 88% of the sector's funding had been obligated, and 65% had been expended. Figure 2-31 shows the status of funds in the health care sector; 653 of 795 projects have been completed, with the majority classified as non-construction.²¹⁵ The project completion rate in this sector is ahead of several other sectors, but security delays and contractor failures have significantly limited progress.

The PHC program was the largest single construction program under IRRF 2, and it has been beset by problems. Only 6 of the

Figure 2-29
**HEALTH CARE SECTOR AS
 A SHARE OF IRRF FUNDS**
 % of \$18.44 Billion
 Source: Dos Iraq Weekly Status Report, 06/28/06

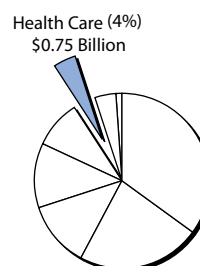
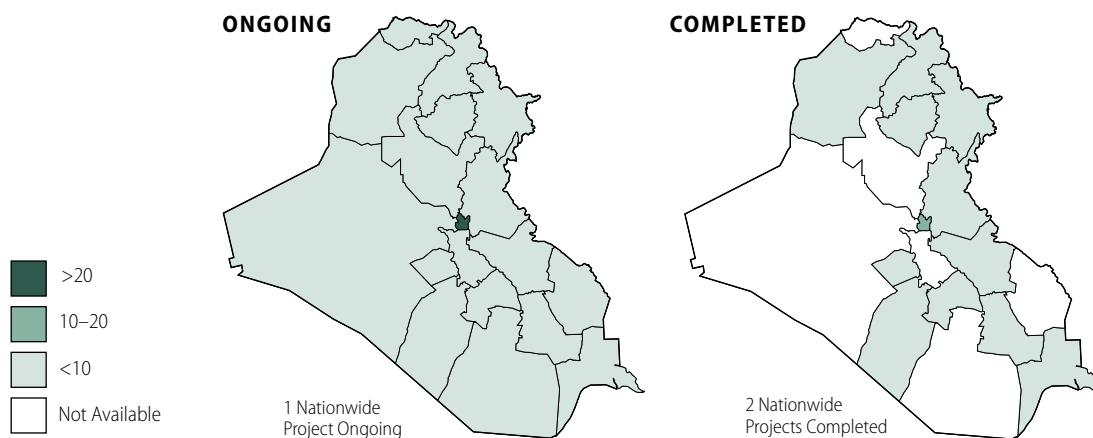




Figure 2-30
**HEALTH CARE CONSTRUCTION
 PROJECTS BY GOVERNORATE**
 Number of projects
 Source: IRMS—IRMO Rollup File, 06/30/06 &
 USAID Activities Report 07/10/06



135 PHCs (descoped from 150) funded by IRRF 2 have been completed.²¹⁶ The majority of the design-build contracts for the PHCs were canceled this quarter and are being re-awarded to Iraqi firms under fixed-price contracts.

The July 2006 *Section 2207 Report* reflects the Administration's previous notification to Congress of its intent to increase funding in this sector by \$62.3 million primarily to address construction funding shortfalls.²¹⁷ Figure 2-32 shows the status of projects in the health care sector.

Key Projects Completed and Underway

SIGIR reported last quarter that 150 PHCs were originally planned for Iraq using IRRF 2 funding, but because of cost increases, that planned total now stands at 142. After the PHC design-build contract was canceled, GRD pursued alternate funding to finish the partially completed PHCs. Seven of the remaining PHCs will be funded with the Commander's Emergency Response Program (CERP) funds, and the other 135 will be completed with remaining IRRF 2 funds. GRD-PCO planned to com-



HEALTH CARE

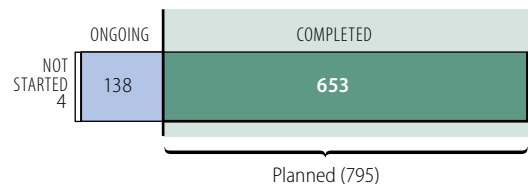


Figure 2-31
STATUS OF HEALTH CARE FUNDS
\$ Billions
Source: *Dos Iraq Weekly Status Report*, 06/28/06

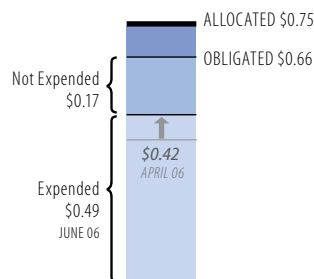
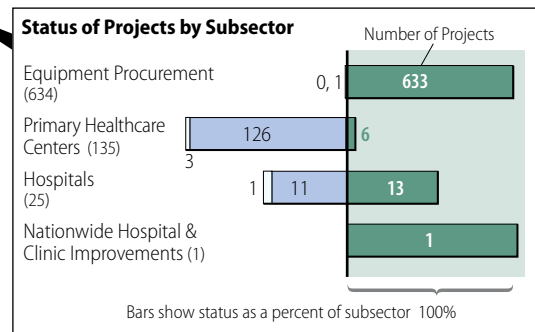


Figure 2-32
STATUS OF HEALTH CARE PROJECTS
Number of projects
Source: IRMS—IRMO Rollup File, 06/30/06 & USAID Activities Report 07/10/06



plete 20 of the 135 PHCs under the original design-build contracts and the other 115 under new, fixed-price contracts.²¹⁸ GRD has issued solicitations for 106 of these fixed-price contracts.²¹⁹ Of the six delivered PHCs, only two are currently serving patients.²²⁰ The estimated completion date for all of the PHCs is now June 2007.²²¹ Figure 2-33 shows the status of PHC construction.

The hospital rehabilitation program has also been problematic. The program's original goal was to renovate 17 maternity and children's hospitals, but this number was increased to 20 in December 2004.²²² Currently, the refurbishment of 20 hospitals is being overseen by GRD-PCO, while the construction of one additional hospital is being overseen by USAID.

In May 2006, GRD-PCO announced that the design-build contract for the hospitals had been partially terminated because of insufficient contractor progress and associated escalating costs, which had pushed the program's cost above available funding.²²³ Although refurbishments have been completed at 11 hospitals, 8 hospital renovations have been descoped from the original design-build contract and will be completed through new fixed-price contracts. The GRD-PCO hospital renovation program is expected to be finished by April 2007.²²⁴

In November 2003, \$50 million from the IRRF was allocated for the Basrah Children's Hospital Project. USAID entered into a Memorandum of Understanding with Project HOPE,

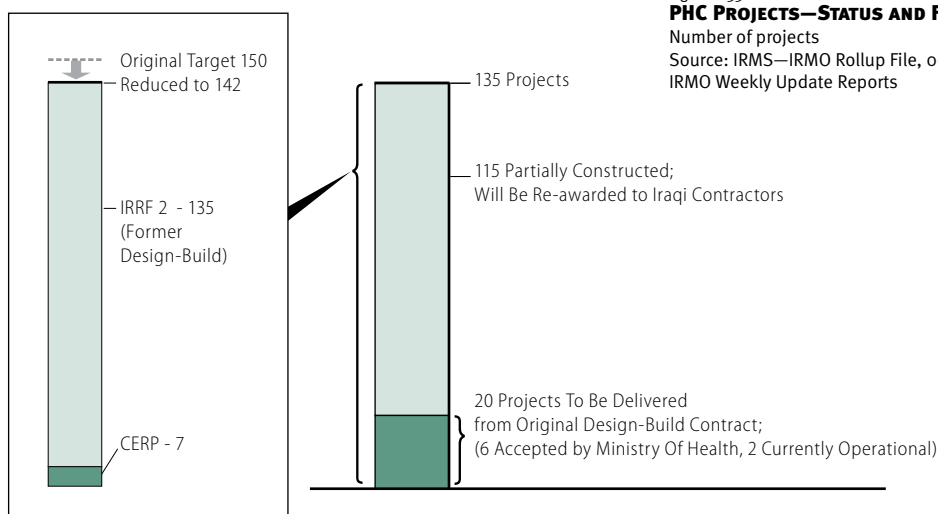


wherein Project HOPE would provide a significant portion of the hospital's equipment and assume responsibility for training medical and administrative staff. At the request of the Iraqi Ministry of Health, USAID modified the scope of work in July 2005 to increase the number of beds to 94 and to upgrade the facility to include an oncology center.

The contract with Bechtel, the prime contractor, required that the hospital be completed by December 31, 2005. However, the completion date slipped several times, and on March 26, 2006, Bechtel informed USAID that the hospital would not be completed until July 31, 2007. A recent assessment identified several options for completing the hospital that ranged from \$90 million to \$131 million, not including medical equipment. The recommended option was to discontinue Bechtel as the prime

contractor and assign responsibility to USACE-GRD. This option has the potential to reduce costs to approximately \$90 million plus the cost of medical equipment. SIGIR has completed an audit of this project, which is summarized in Section 3 of this Report.²²⁵

USAID's non-construction activities in the health care sector will be completed by the end of the current reporting period,²²⁶ with close-out expected by August.²²⁷ These projects have focused on vaccination and training programs. USAID has dedicated \$10 million to capacity development activities for primary health care providers in the Ministry of Health²²⁸ and \$4.5 million for training of ministry staff in technical and management areas to strengthen primary health care program planning, implementation, and oversight.²²⁹





HEALTH CARE

Outputs of IRRF-funded Health Care Projects

HEALTH CARE FACILITIES

An IRRF contract directed the provision of medical and dental equipment sets for each of the 150 PHCs. Six sets of PHC equipment and consumables have been delivered to the six accepted PHCs. The sets for the remaining PHCs have been stored at Erbil and Abu Ghraib and will be used for the PHCs as they are completed.²³⁰

Although the number of PHCs was reduced, the U.S. government did not adjust the number of medical equipment sets on order. The contract's definitized costs of \$70,359,014 included contractor installation and testing of the equipment, training of clinic personnel in the use of the equipment, and provision of a 12-month warranty on the installed equipment. For a summary of SIGIR's audit of this contract, see Section 3 of this Report. Table 2-12 shows more information on construction projects in the health care sector.

HEALTH CARE FACILITY CONSTRUCTION: CURRENT & PLANNED

HEALTH CARE FACILITIES	CURRENT STATE, AS OF 06/30/2006	IRRF PLANNED END-STATE
Hospitals Rehabilitated ¹	11	20
Hospitals Built ²	In progress	1
Primary Healthcare Centers Rehabilitated ²	147	147
Primary Healthcare Centers Equipped ²	600	600
Small Primary Healthcare Centers Built and Equipped ²	6	6
Model Primary Healthcare Centers Completed to Operational Stage ¹	2	135

Sources: IRMS data, as of 06/30/2006 (End-State of Model PHCs); DoS *Section 2207 Report*, Tab 5 (Selected Metrics), July 2006, p. 16 (all other data); ¹represents work overseen by GRD-PCO; ²represents work overseen by USAID).

The current number of PHCs to be completed is 142. Of those: 20 will be completed through the original design-build contract; 115 will be completed through fixed-price contracts, including one PHC that was always slated to be completed through this contracting method; and seven will be done with CERP.

TABLE 2-12



HEALTH CARE

NON-CONSTRUCTION PROJECTS

The United States has supported a broad range of non-construction activities, including vaccination campaigns for measles, mumps, rubella, and polio, as well as vaccine supplies to ensure the availability of routine immunizations. Table 2-13 shows the figures related to these programs.

Other non-construction projects include:

- providing vitamin A and iron folate to 2 million lactating mothers and young children.²³¹
- training health workers at more than 2,000 community child-care units to conduct growth monitoring and manage malnutrition, including screening of more than 1.3 million children.²³²

Outcomes of IRRF-funded Health Care Projects

The original coalition strategy for the health care sector was to move Iraq from a hospital-based delivery system to a more localized primary health care system. The plan envisioned developing a more accessible health care system that relied on PHCs to improve services for all Iraqis, particularly those in remote and

VACCINATION AND TRAINING PROGRAMS

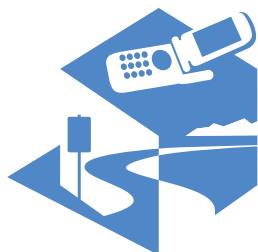
OUTPUTS METRIC	STATUS, AS OF 6/30/2006
Vaccination Programs	<ul style="list-style-type: none"> • 3.6 million children vaccinated against MMR (98% of target population) • 4.6 million children vaccinated against polio (97% of target population)
Number of Ministry of Health Professionals Trained in Maternal and Child Health Service Delivery	3,707 [3,200 from IRRF 1]
Community Leaders and Other Non-ministry Personnel Trained in Health Promotion	3,100 [All IRRF 1 Funding]

Source: DoS, response to SIGIR Data Request, 07/03/2006.

TABLE 2-13

underserved areas.²³³ The failure of the PHC and hospital programs to meet their schedules has limited progress in this sector. The vaccination campaigns, however, have had significant, positive results. Almost all Iraqi children have been inoculated against measles, mumps, polio, and rubella. From 2004 to 2005, lab-confirmed cases of measles in Iraq dropped by 90%, and there have been no recorded cases of polio since 2003.²³⁴

SECTOR REPORT



STATUS OF THE TRANSPORTATION AND COMMUNICATIONS SECTOR

This section examines the progress of reconstruction in the transportation and communications (T&C) sector. Projects in this sector improve transportation systems in Iraq, such as ports, railways, roads, bridges, and airports. This sector also includes U.S.-funded telecommunications projects.²³⁵

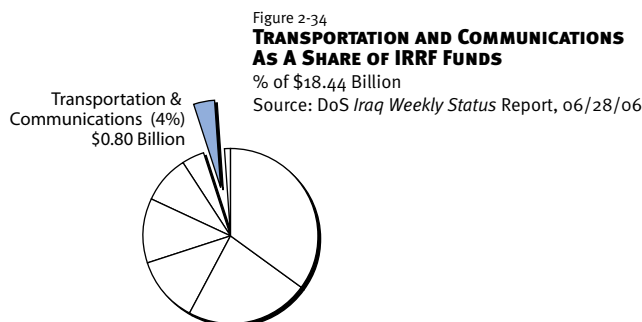
These are the highlights of this sector review:

- 54% of projects have been completed, and 60% of the \$803 million IRRF 2 allocation for this sector has been expended. This suggests that most of the larger projects are complete. Figure 2-34 shows sector funding as a portion of total IRRF 2 allocations.
- Projects at the Port of Umm Qasr on the Iraq-Kuwait border were 87% complete at

the end of this reporting quarter.

- U.S. projects have completed repairs at 82 of 98 railway stations, but the effects of these projects are not yet apparent. Although the weekly average increased during the quarter, because of continued security problems only a small number of trains continue to run nationwide.
- Landline and mobile phone services continue to expand. More than 7 million Iraqis now have access to mobile phone service.

Figure 2-35 shows construction projects in this sector by governorate.





TRANSPORTATION AND
COMMUNICATIONS

IRRF-funded Activities in the Transportation and Communications Sector

Projects in the T&C sector focus on five major areas:

- shipping
- railways
- air transportation
- roads and bridges
- telecommunications

GRD-PCO estimates that all projects will be completed in this sector by December 2008.²³⁶ Figure 2-36 shows the status of projects in the T&C sector.

In 2003, the UN and World Bank estimated that transportation and telecommunications in Iraq would require \$3.38 billion of investment.²³⁷ The T&C sector has been allocated more than \$800 million of IRRF funds. More than 92% of the sector's funding has been obligated, and \$480 million has been expended. (Figure 2-37 shows the status of funds in the T&C sector.)

SHIPPING

Key Shipping Projects Completed and Underway

Projects in shipping have focused on the Port of Umm Qasr. \$45 million of IRRF 2 was allocated for rehabilitation work and new equipment at the port, with \$43 million obligated by the end of this reporting quarter.²³⁸ GRD-PCO has completed four of eight projects at the port,²³⁹ and the overall port construction program is 87% complete. It is expected to be finished in October 2006.²⁴⁰

Outputs of IRRF-funded Shipping Projects

As a result of U.S. projects, 16 docks are now functioning; only one dock was functioning at the end of the war.²⁴¹ Other port projects focus on increasing handling capacity, enhancing operational efficiency, and strengthening security, all of which will allow for increased movement of cargo in and out of the port.²⁴²

Outcomes of IRRF-funded Shipping Projects

Figure 2-38 shows the number of new ship berths at Umm Qasr from January 18, 2006, to June 27, 2006. The number of berths averaged more than 18 per week this quarter, which is an increase from the previous quarter's 14 per week.

RAILWAYS

Key Railway Projects Completed and Underway

Current allocations in this subsector amount to \$198 million, and \$183 million was obligated by the end of this quarter.²⁴³ In large part, construction projects in this subsector have focused on railroad station rehabilitation. GRD-PCO has rehabilitated 82 of 98 railroad stations as part of the \$51 million program.²⁴⁴ SIGIR visited the Baghdad Central Railway station this quarter. SIGIR's project assessment found the Baghdad railway station to be essentially complete and in good order except for limited punch-list items and some work added because of a pending modification. SIGIR also conducted a limited on-site inspection at Thi-Qar Railway Station and found that the only problem was a project delay. Summaries of the inspections are in Section 3 of this Report.



TRANSPORTATION AND
COMMUNICATIONS

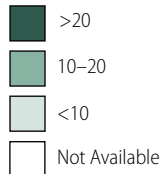
Figure 2-35

TRANSPORTATION AND COMMUNICATIONS CONSTRUCTION PROJECTS BY GOVERNORATE

Number of Projects

Source: IRMS Rollup File, 06/30/06

USAID Activities Report, 07/10/06



ONGOING



COMPLETED

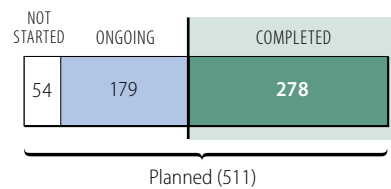
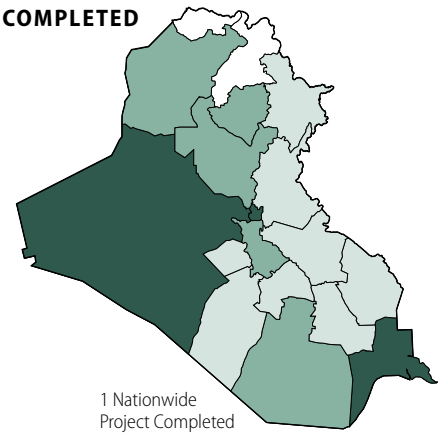


Figure 2-36

STATUS OF TRANSPORTATION AND COMMUNICATIONS PROJECTS

Number of Projects

Source: IRMS-IRMO Rollup File, 06/30/06 &

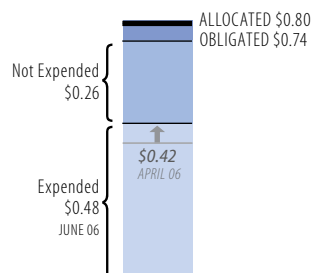
USAID Activities Report, 07/10/06

Figure 2-37

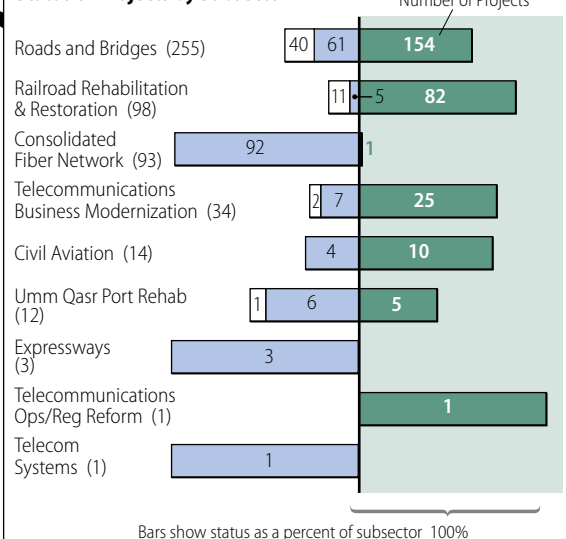
STATUS OF TRANSPORTATION AND COMMUNICATIONS FUNDS

\$ Billions

Source: DoS *Iraq Weekly Status Report*, 06/28/06



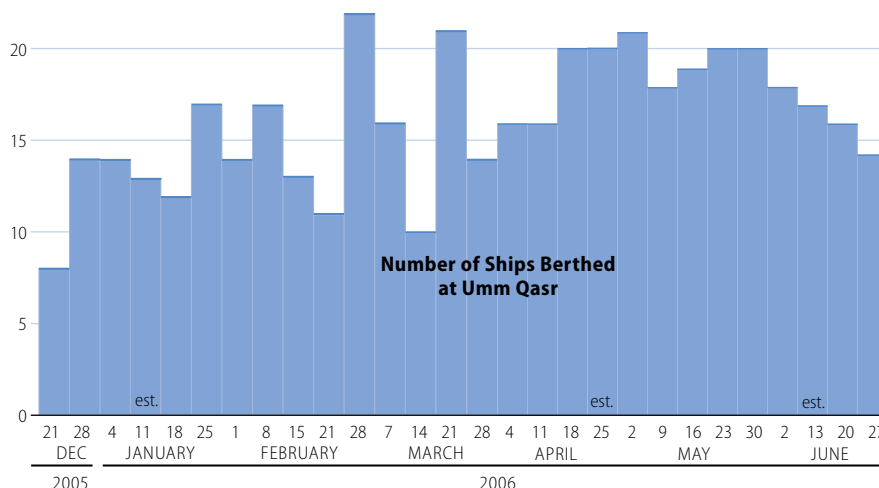
Status of Projects by Subsector





TRANSPORTATION AND COMMUNICATIONS

Figure 2-38
SHIPS BERTHED AT UMM QASR
Number of Ships
Source: IRMO Weekly Status Reports, 12/21/05-06/27/06



The bulk of expenditures in this subsector, \$125 million, is for non-construction material. Most of this funding has gone to track-maintenance machinery, spare parts, and tools and materials.²⁴⁵ One of the largest projects provides communications for a train-control system, which is essential to running a viable railway. The \$60 million project is expected to be completed in 2007.²⁴⁶ The United States is also helping the Iraqi Republic Railway (IRR) develop a long-term strategic business plan.

Outputs of IRRF-funded Railway Projects

U.S. projects have helped bring the number of operational locomotives up to 125 (from 25 immediately after the war).²⁴⁷ As noted, though most funding has been allocated to non-construction projects, GRD-PCO is repairing 98 stations throughout Iraq.

Outcomes of IRRF-funded Railway Projects

Figure 2-39 shows weekly train traffic for 2006. This quarter, train movement averaged 15.2 trains per week—a slight increase over the previous quarter's average of 13 per week.

Security continues to hinder the flow of rail traffic in Iraq. No trains have operated along the Baghdad-Basrah-Umm Qasr route since February 2006.²⁴⁸

AIR TRANSPORTATION

Key Air Transportation Projects

Completed and Underway

\$56 million of the \$67 million in IRRF 2 allocations for civil aviation has been obligated.²⁴⁹ U.S. projects have focused on bringing the three major international airports in Iraq up to International Civil Aviation Organization standards: Baghdad (BIAP), Basrah (BIA), and

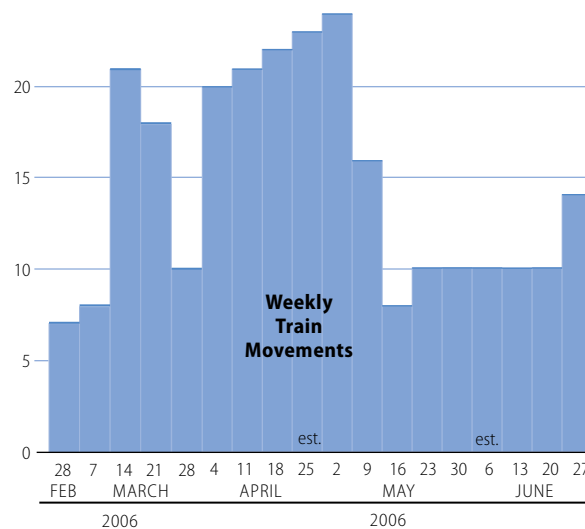


Figure 2-39
VOLUME OF RAIL TRAFFIC
Number of Weekly Train Movements
Source: IRMO Weekly Status Reports, 02/28/06-06/27/06

Mosul.²⁵⁰ None of these airports was operating at the end of the 2003 war,²⁵¹ but now each has ongoing commercial operations. Operations are also active at the Kirkuk and Erbil airfields.²⁵²

Table 2-14 summarizes the work done at BIAP, BIA, and Mosul and shows that U.S.-led reconstruction efforts in this subsector are near completion. Work at BIA was originally scheduled to be completed by May 2006,²⁵³ but the estimated completion date has been pushed back. SIGIR completed a project assessment of BIA, concluding that the contract work at Basrah was consistent with contract requirements (although the original objectives had not been achieved at the time of SIGIR's assessment). For a summary of the assessment, see Section 3 of this Report.

Outputs of IRRF-funded Air Transportation Projects

U.S. projects have helped rehabilitate five Iraq airports that were not functioning at the end of the war.²⁵⁴ The projects primarily focused on infrastructure improvements at the three national airports—Baghdad, Basrah, and Mosul—completion expected by August 2006. The work performed meets the minimum standards of the International Civil Aviation Organization.²⁵⁵

Outcomes of IRRF-funded Air Transportation Projects

During this quarter, BIAP averaged 414 civil aviation operations per week—an increase from last quarter's 371 per week. Figure 2-40 shows the number of daily commercial flights at BIAP from April 4 to June 27, 2006.



TRANSPORTATION AND COMMUNICATIONS

STATUS OF U.S.-LED PROJECTS AT IRAQI AIRPORTS

AIRPORT	CONTRACT SIZE	NUMBER OF PROJECTS	ESTIMATED COMPLETION DATE	STATUS AS OF 6/19/06
Baghdad (BIAP)	\$17 million	6	August 2006	85% complete
Basrah (BIA)	\$7 million	7	July 2006	96% complete
Mosul	\$10 million	1	August 2006	89% complete

Source: GRD-PCO, SIGIR Data Request sent by DoS, Excel spreadsheet, June 19, 2006; Updated by GRD-PCO, vetting response, July 18, 2006.

TABLE 2-14

ROADS AND BRIDGES

Key Road and Bridge Projects Completed and Underway

U.S.-funded projects in this sector will not be completed until December 2008. The projects have focused on smaller village roads, several highways important for commerce and general transportation, and bridges.²⁵⁶ By the end of this quarter, \$189 million of the \$209 million of the IRRF had been obligated.²⁵⁷

Iraq's roads were in poor condition at the end of the 2003 conflict—not as a result of U.S. military operations, but because of continued neglect of Iraq's infrastructure. The UN and World Bank estimated that only 50% of highways and 20-30% of secondary and village roads were in "good" condition in 2003.

The highway between Baghdad and Kirkuk will be upgraded to four lanes by December 2008 at a cost of \$27.9 million; the project is 6% complete. Diwaniyah and Semawa will also be connected by an upgraded four-lane highway. This \$15.5 million project, scheduled to be

completed in January 2008, is 24% complete.²⁵⁸

Projects to reconstruct five bridges are 13% complete and will be finished in January 2008.

Work on small roads appears to be lagging behind schedule because of fuel and asphalt shortages.²⁵⁹ The Village Roads Program, budgeted at \$38 million, will improve 263 miles (424 kilometers) of roads throughout 15 governorates in Iraq.²⁶⁰ The project was estimated to be finished by August 2006²⁶¹ but is now estimated to be finished by March 2007. At the end of this quarter, 135 miles were complete.²⁶² A SIGIR project assessment completed this quarter found that the Muthanna Village Roads Segment 4 project is 50% complete but is five months past the original completion date of the project. Security conditions prevented the assessment team from visiting the project site, suggesting that security has hindered progress on the project. SIGIR also conducted a limited on-site inspection of a road construction project in Basrah and found the work to be consistent with design requirements.



Projects being issued through the Provincial Reconstruction Development Committees (PRDCs) are moving forward. PRDCs, which have been budgeted \$52 million for roads, prioritize projects in their respective provinces.²⁶³ At the end of last quarter, 59 projects—valued at \$49.2 million—had been approved.²⁶⁴

Outputs of IRRF-funded Road and Bridge Projects

U.S.-led road and bridge projects will repair and pave 405 miles of road, including 263 miles of village roads, 125 miles of city carriageways, and 17 miles of major roads.²⁶⁵ Ten bridges will be repaired by the end of the reconstruction program—five from IRRF funding and five from DFI funding.²⁶⁶

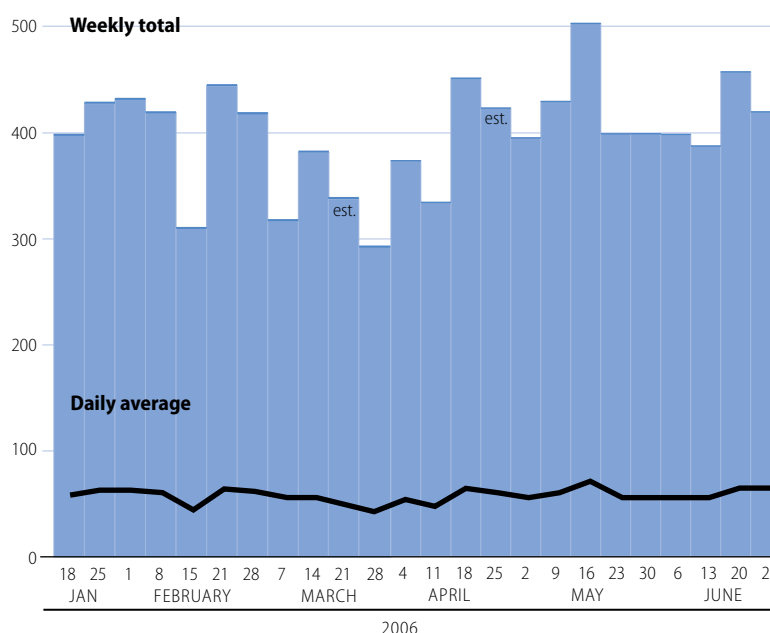
TELECOMMUNICATIONS

This subsector continues to generate successful outcomes: the number of Iraqis with telephone access is rising, largely because of private sector development.

Key Telecommunications Projects Completed and Underway

The \$70-million Consolidated Fiber Network (CFN) was completed and commissioned this quarter.²⁶⁷ The project was finished ahead of schedule and under budget. The CFN extended the fiber network of the Iraqi Telephone and Postal Company's (ITPC), a government agency under the Ministry of Communica-

Figure 2-40
FLIGHTS FROM BAGHDAD INTERNATIONAL AIRPORT
Number of Flights
Source: IRMO Weekly Status Reports, 01/18/06-06/27/06





TRANSPORTATION AND COMMUNICATIONS

tions. This will allow Ministry of Electricity officials to monitor and control their electrical grid from a central location and help reduce blackouts and uncontrolled disruptions. To ensure a sustainable system, the CFN effort included extensive training for ministry staff in the operation and maintenance of the new equipment.²⁶⁸

\$21 million in IRRF was allocated to modernize the ITPC, and \$19 million has been obligated to date.²⁶⁹ This includes 34 projects, valued at approximately \$3 million, focused on constructing and renovating post offices. At the end of this quarter, the projects were 60% complete, up from 41% last quarter.²⁷⁰ When finished, the projects will provide mail service for one million Iraqis.²⁷¹

The Iraqi Telecommunications System has been allocated \$48 million from IRRF, and almost all had been obligated by the end of this quarter.²⁷² Funding is being used to construct a primary switching facility at Al-Mamoom and a wireless broadband network. The \$26 million Al-Mamoom switch facility is 8% complete and is estimated to be complete by July 2007.²⁷³

A \$15 million project to establish a wireless broadband network in Baghdad is providing high-capacity data and voice communications to 35 government sites in Baghdad. The network is currently operational and is being considered for providing secure communications for the Iraqi government.²⁷⁴

The Advanced First Responder Network (AFRN) is an enormous project intended to provide emergency communications for

first responders, but it has failed to meet expectations. SIGIR completed an audit of this project, and it is summarized in Section 3 of this Report.

Outputs of IRRF-funded Telecommunications Projects

USAID used IRRF 1 funds to repair the 12 landline telephone switching stations that were knocked out of service during the war.²⁷⁵ In late 2003, the Iraq Ministry of Telecommunications granted three two-year licenses for Global System for Mobile Communications (GSM).²⁷⁶ Late last year, a request for applications for new cell phone licenses went out, and ten responses were received in January 2006. The two-year license periods expired at the end of 2005 and were extended to June 2006.²⁷⁷ Recently, they were extended again to September 2006.²⁷⁸

Outcomes of IRRF-funded Telecommunications Projects

Table 2-15 compares the current number of telephone subscribers with pre-war numbers. Mobile phone subscribers continue to increase at a rapid pace, from 5.3 million last quarter to 7 million this quarter. Most of the development for the mobile phone infrastructure has come from the private sector. Although the United States provided funding for wireless licenses, the huge increase in subscribers cannot be directly attributed to IRRF-funded projects.

Currently, about 208,000 Internet subscribers in Iraq use State Company for Internet Services (SCIS). Most Iraqis continue to gain



CURRENT TELEPHONE SUBSCRIBERS VS. PRE-WAR LEVELS

OUTPUTS METRIC	PRE-WAR LEVEL (2003)	LAST QUARTER STATUS AS OF 3/28/06	CURRENT STATUS AS OF 6/27/06
Landline Subscribers	833,000	1,036,854	1,250,000
Mobile Phone Subscribers	80,000	5,261,789	7,046,526

Sources:

Pre-war Levels: Economist Intelligence Unit, Country Profile 2005-Iraq, 2005, p. 34; International Telecommunication Union, World Telecommunication/ICT Indicators, no date, p. A-30. Available online at http://www.itu.int/ITU-D/ict/statistics/at_glance/cellular03.pdf.

Last Quarter Status: IRMO, Weekly Status report, March 28, 2006, p. 19.

Current Status: IRMO, Weekly Status report, June 27, 2006, p. 18.

TABLE 2-15

access through cafes and hotels.²⁷⁹ Hundreds of thousands of Iraqis use Internet cafes and other public Internet access points in Iraq, which were not funded by the United States.²⁸⁰

Challenges Facing the T&C Sector

Security is the major challenge that hinders transportation in Iraq. Most trains are not operating because of security concerns. Additionally, DoS maintains travel warnings about

using civil aviation in and out of Iraq and for vehicular travel throughout the country.²⁸¹

IRMO reports that a major challenge is providing training to international standards for Civil Aviation Authority personnel. Obtaining permission from the Ministry of Transportation to travel and arranging visas to the countries where training is conducted has been difficult.²⁸² The rail sector faces a similar challenge.



TRANSPORTATION AND COMMUNICATIONS

CONTRACTS

This quarter, \$400 million of the Iraq Relief and Reconstruction Fund (IRRF 2) was obligated, raising cumulative obligations to \$16.7 billion. Cumulative expenditures rose by \$1.34 billion, to \$12.71 billion.

To account for these cumulative totals this quarter, SIGIR has taken a new approach for recording contract data in the SIGIR Iraq Reconstruction Information System (SIRIS). Previously, contracting actions were fed into SIRIS from either electronically scanned documents or from manual data entry, using facsimile copies of the contract documents as the source. Incomplete electronic contract records and a lack of real-time updates prevented substantial reporting of IRRF 2 project infor-

mation. To address the shortfall, SIGIR issued data calls to the major federal agencies responsible for execution of IRRF 2 funds. The data call responses were consolidated and recorded in SIRIS, which currently accounts for approximately 80% of the reported IRRF 2 obligations and expenditures for the quarter.

To date, SIGIR has compiled more than 6,000 contracting actions for \$13.45 billion in obligations and \$9.99 billion in expenditures. SIGIR will continue its efforts to account for all IRRF 2-funded activities. Table 2-16 compares the IRRF 2 financial summary reported by DoS, for the month ending June 2006, to the roll-up of IRRF 2-funded contracts in SIRIS.

SIRIS IRRF 2 TOTALS vs. ACTUAL IRRF 2 TOTALS

SOURCE	OBLIGATED	EXPENDED
IRRF 2 Financial Summary	\$16,704,070,000.00	\$12,710,220,000.00
SIRIS: GRD-PCO	\$10,708,346,576.99	\$7,824,842,302.17
SIRIS: USAID	\$2,742,375,813.28	\$2,162,904,361.10
SIRIS Total	\$13,450,722,390.27	\$9,987,746,663.27
Unaccounted for by SIRIS	\$3,253,347,609.73	\$2,722,473,336.73

TABLE 2-16

Contractor Analysis

Table 2-17 shows the top 10 contractors, sorted by obligation amount, reported in SIRIS. Bechtel contract SPU-C-00-04-00001-21 reports the largest obligation total, which exceeds \$1 billion. More than 75% of this total has been expended. The activities under

this contract are spread across the electricity, water, and transportation and communications sectors. Kellogg Brown & Root Services, Inc., (KBR) and Parsons Iraq Joint Venture (PIJV) report the greatest percentage of unexpended funding in a number of ongoing projects in the oil and gas sector.

TOP 10 CONTRACTORS

CONTRACTOR	OBLIGATED	EXPENDED	UNEXPENDED	% UNEXPENDED
Bechtel	\$1,197,911,678.00	\$919,352,791.00	\$278,558,887.00	23%
FluorAMEC, LLC	\$957,718,894.82	\$776,346,176.34	\$181,372,718.48	19%
Parsons Global Services, Inc.	\$788,360,471.09	\$588,783,695.02	\$199,576,776.07	25%
Kellogg Brown and Root Services, Inc.	\$578,960,491.43	\$335,894,549.03	\$243,065,942.40	42%
Parsons Iraq Joint Venture	\$547,259,610.80	\$331,183,783.48	\$216,075,827.32	39%
Washington Group International	\$460,875,943.78	\$360,259,633.04	\$100,616,310.74	22%
Environmental Chemical Corporation	\$351,891,619.00	\$344,651,135.73	\$7,240,483.27	2%
Development Alternatives, Inc.	\$345,019,836.50	\$336,374,960.71	\$8,644,875.79	3%
Anham Joint Venture	\$259,132,716.23	\$258,207,373.19	\$925,343.04	.004%
RTI	\$235,228,451.21	\$166,068,970.88	\$69,159,480.33	29%

TABLE 2-17

Contract Summary

Table 2-18 breaks out contracting actions by obligation value. Although the number of contracting actions valued at more than \$5 million represents the smallest percentage of the total number of contracts, these large contracts account for 80% of IRRF 2 funds obligated.

CONTRACT SUMMARY

DOLLAR RANGE	QUANTITY	OBLIGATED	% OF TOTAL OBLIGATED	% OF TOTAL CONTRACTS
>=\$5 Million	440	\$10,789,050,000.25	80%	7%
>=\$1 Million and <\$5 Million	786	\$1,814,609,550.78	13%	12%
>=\$500 Thousand and <\$1 Million	550	\$400,471,709.94	3%	8%
>=\$250 Thousand and < \$500 Thousand	648	\$236,185,251.92	2%	10%
>\$0 and <\$250 Thousand	3,425	\$210,405,877.38	2%	52%
N/A	737	n/a	n/a	11%
Total	6,586	\$13,450,722,390.27	100%	100%

TABLE 2-18

Terminated Contracts

As of June 30, 2006, 62 actions had been terminated. Most were in the oil and gas sector, under the KBR contract. Table 2-19 shows all of the terminations recorded in SIRIS.

As required in P.L. 108-106, Section 3001 (i)(1)(F), as amended, Appendix H lists contracting actions funded by the IRRF that have been recorded in SIRIS.

TERMINATED CONTRACTS

CONTRACT NUMBER	TASK ORDER	CLIN	CONTRACTOR
ELECTRICITY			
W91GXY-06-D-0003	n/a	n/a	Iraqi Contractor – 4254
W91GXY-06-M-0052	n/a	n/a	Iraqi Contractor – 4732
W91GXY-06-C-0046	n/a	n/a	United Services
OIL			
W9126G-04-D-0001	1	all	KBR
W9126G-04-D-0001	2	all	KBR
W9126G-04-D-0001	5	all	KBR
W9126G-04-D-0001	7	2	KBR
W9126G-04-D-0001	7	3	KBR
W9126G-04-D-0001	7	4	KBR
W9126G-04-D-0001	7	5	KBR
W9126G-04-D-0001	9	all	KBR
W9126G-04-D-0001	12	13	KBR
W9126G-04-D-0001	12	14	KBR
W9126G-04-D-0001	12	15	KBR
W9126G-04-D-0001	12	16	KBR
W9126G-04-D-0001	12	17	KBR
W9126G-04-D-0001	12	18	KBR
W9126G-04-D-0001	12	19	KBR
W9126G-04-D-0001	12	20	KBR
W9126G-04-D-0001	12	21	KBR
W9126G-04-D-0001	12	22	KBR
W9126G-04-D-0001	12	23	KBR
W9126G-04-D-0001	18	all	KBR
W9126G-04-D-0001	19	all	KBR
W9126G-04-D-0001	21	2	KBR
W9126G-04-D-0001	21	3	KBR

CONTRACT NUMBER	TASK ORDER	CLIN	CONTRACTOR
W9126G-04-D-0001	21	4	KBR
W9126G-04-D-0001	21	5	KBR
W9126G-04-D-0001	21	6	KBR
W9126G-04-D-0001	24	all	KBR
W9126G-04-D-0001	25	all	KBR
W9126G-04-D-0001	26	2	KBR
W9126G-04-D-0001	26	3	KBR
W9126G-04-D-0001	26	4	KBR
W9126G-04-D-0001	26	5	KBR
W9126G-04-D-0001	26	6	KBR
W9126G-04-D-0001	26	7	KBR
W9126G-04-D-0002	7	n/a	PIJV
W9126G-04-D-0002	20	n/a	PIJV
W9126G-04-D-0002	18	4	PIJV
W9126G-04-D-0002	18	11	PIJV
W9126G-04-D-0002	18	12	PIJV
W9126G-04-D-0002	10	3	PIJV
W9126G-04-D-0002	11	5	PIJV
W9126G-04-D-0002	13	3	PIJV
W914NS-05-M-0045	n/a	n/a	DIMA Universal Company
WATER			
W914NS-04-D-0007	5	n/a	Washington International/Black & Veatch
W914NS-04-D-0007	6	n/a	Washington International/Black & Veatch
W914NS-04-D-0007	7	n/a	Washington International/Black & Veatch
W914NS-04-D-0007	10	n/a	Washington International/Black & Veatch
W914NS-04-D-0007	11	n/a	Washington International/Black & Veatch
W914NS-04-D-0008	3	n/a	FluorAMEC
W914NS-04-D-0008	12	n/a	FluorAMEC
W914NS-04-D-0022	4	n/a	FluorAMEC
W914NS-04-D-0022	5	n/a	FluorAMEC
W917BG-05-C-0029	0	n/a	Blackburn and Associates
HEALTH			
W914NS-04-D-0009	n/a	n/a	Parsons
W914NS-04-D-0006	3	n/a	Parsons
W914NS-04-D-0006	6	n/a	Parsons
W914NS-04-D-0006	8	n/a	Parsons
W914NS-04-D-0006	9	n/a	Parsons
W914NS-04-D-0006	10	n/a	Parsons
W914NS-04-D-0006	13	n/a	Parsons

TABLE 2-19

COST-TO-COMPLETE

Cost-to-complete (CTC) data helps identify reconstruction sectors that are under-funded and helps to avoid exhausting budgets before project completion. U.S. agencies executing reconstruction projects are mandated by Section 2207 of P.L. 108-106 to produce reliable cost-to-complete data. To develop this data, agencies must subtract cumulative expenditures from the estimated cost at completion. To assess whether available funding is adequate, agencies must compare the estimate at completion with the authorized amount.

This CTC summary is derived from the June 30, 2006 Project Assessment Reports (PAR) for GRD-PCO and USAID. For the first time, it includes data from the Multi-National Security Transition Command-Iraq (MNSTC-I). In January 27, 2006, SIGIR reported²⁸³ that MNSTC-I did not submit a PAR report for the September 30, 2005 Project Activity Report, which contains the CTC data. Also, MNSTC-I had not provided CTC reports for subsequent periods until the PAR for the period ending June 30, 2006. MNSTC-I's CTC data increases the comprehensiveness of the PAR, reporting authorized funds of \$1.651 billion, with an estimate at completion of the same amount and a cost-to-complete of \$160 million.

The PAR report does not include information on the source of project funding. Although SIGIR was able to establish that most projects were funded with IRRF, it is possible that the PAR also includes projects funded from other appropriations.

These are the current highlights reflected in the consolidated CTC information from PAR reports, as of June 30, 2006:

- Overall, the total CTC for all sectors as of June 30, 2006, is \$3.769 billion—40% of authorized funds.
- The total estimate at completion exceeds the total authorized amount by \$187 million, with a \$246 million deficit in the oil and gas sector, a \$74 million deficit in the electricity sector, and a \$63 million deficit in the health care sector. The other sectors have estimated costs to complete that are within their authorized funding.
- The total variance between the authorized amount and the estimate at completion has been reduced slightly from the second quarter total of \$199 million to \$187 million this quarter.
- The electricity sector shows a decrease of \$65 million in authorized funds from the second quarter, but the estimated cost of completion has increased by \$94 million.
- There is a large increase in the security and justice sector from last quarter's reporting. The sector total rose to \$2.279 billion from \$1.059 billion because MNSTC-I has begun to report project information.

Table 2-20 provides the approximate consolidation of data reported by USAID and GRD-PCO into SIGIR progress report sectors.

CONSOLIDATED COST-TO-COMPLETE INFORMATION: GRD-PCO, USAID, AND MNSTC-I PROJECT ASSESSMENT REPORTS, AS OF JUNE 30, 2006 (IN MILLIONS)

SECTOR	(A) AUTHORIZED AMOUNT	(B) ESTIMATE-AT- COMPLETION (EAC)	(A-B) VARIANCE	(C) CUMULATIVE EXPENDITURES	(B-C) COST-TO- COMPLETE (CTC)
Electricity	\$3,540	\$3,614	(\$74)	\$1,896	\$1,718
Water	1,793	1,722	71	995	727
Oil and Gas	961	1,207	(246)	553	654
Security and Justice	2,279	2,206	73	1,882	324
Transportation and Communications	396	345	51	181	164
Agriculture, Democracy, Education, and Private Sector Development	109	108	1	104	4
Health Care	420	483	(63)	305	178
Total	\$9,498	\$9,685	(\$187)	\$5,916	\$3,769

Source: Summarized by SIGIR from June 30, 2006 Project Assessment Reports obtained from IRMO for GRD-PCO, USAID, and MNSTC-I.

¹Dollar totals are grouped by SIGIR defined sectors.

²Estimate-at-completion—an estimate of what the project is expected to cost when completed.

³Cost-to-complete—the total estimated cost of the project less the actual cost of work performed to date.

Note: SIGIR found an error in the MNSTC-I PAR on the CEFMS authorized amount total shown as \$1,610,090,494, which should be \$1,651,034,749. Also, in the GRD-PCO PAR for Project Code 62000, Water, the EAC was shown as \$136,190,696 but actually calculates to \$86,476,914. Both of these corrections are reflected in the table.

TABLE 2-20

SOURCES OF FUNDING FOR IRAQ RECONSTRUCTION

SIGIR is required to report on the oversight of and accounting for funds expended in Iraq relief and reconstruction, under Public Law (P.L.) 108-106, Section 3001 (as amended). In addition to the IRRF, three funding sources support reconstruction and relief activities:

- other U.S. appropriated funds
- international donor funds
- Iraqi funds

As of June 30, 2006, SIGIR has identified \$36.206 billion in *U.S. appropriated funds* for Iraq as “relief and reconstruction.” This total includes \$20.914 billion in IRRF funding and \$15.292 billion in other U.S. appropriated funds. In the absence of an internationally recognized definition of “relief and reconstruction,” SIGIR includes 26 non-IRRF activities that are related to relief and reconstruction, such as the construction of U.S. military installations that will eventually be turned over to the Iraqis.

Table 2-21 presents the best information available for U.S. appropriated funding but does not provide a complete picture of all U.S. relief and reconstruction activities. SIGIR does not have information on funding for narrowly focused programs of some agencies, or the use of agency operating funds for projects in Iraq. Finally, SIGIR made some estimates for select

accounts, which are reflected in the footnotes on the table.

As of June 30, 2006, *international donor funds* totaled \$14.576 billion—\$13.593 billion pledged at the Madrid Conference and \$983 million in post-Madrid pledges. About 25% of these pledges—\$3.5 billion—have been expended.

Iraqi funds comprise vested and seized funds, the Development Fund for Iraq (DFI), and the Iraq Capital Budget. Iraqi funds have been an important source for reconstruction efforts, particularly during the CPA’s tenure. As of June 30, 2006, these funds total \$34.576 billion, including:

- vested (frozen) funds of \$1.724 billion
- seized funds, including confiscated cash and property, of \$926 million
- DFI funds (including the DFI Transition sub-account), drawn primarily from oil proceeds and repatriated funds of \$17.164 billion
- budgeted Iraqi funding of \$14.762 billion since 2004 to 2006 (although much less has actually been expended)

Figure 2-41 provides an overview of all sources of Iraq reconstruction funding. More details are provided in Appendices C, D, and E.

U.S. Appropriated Funding

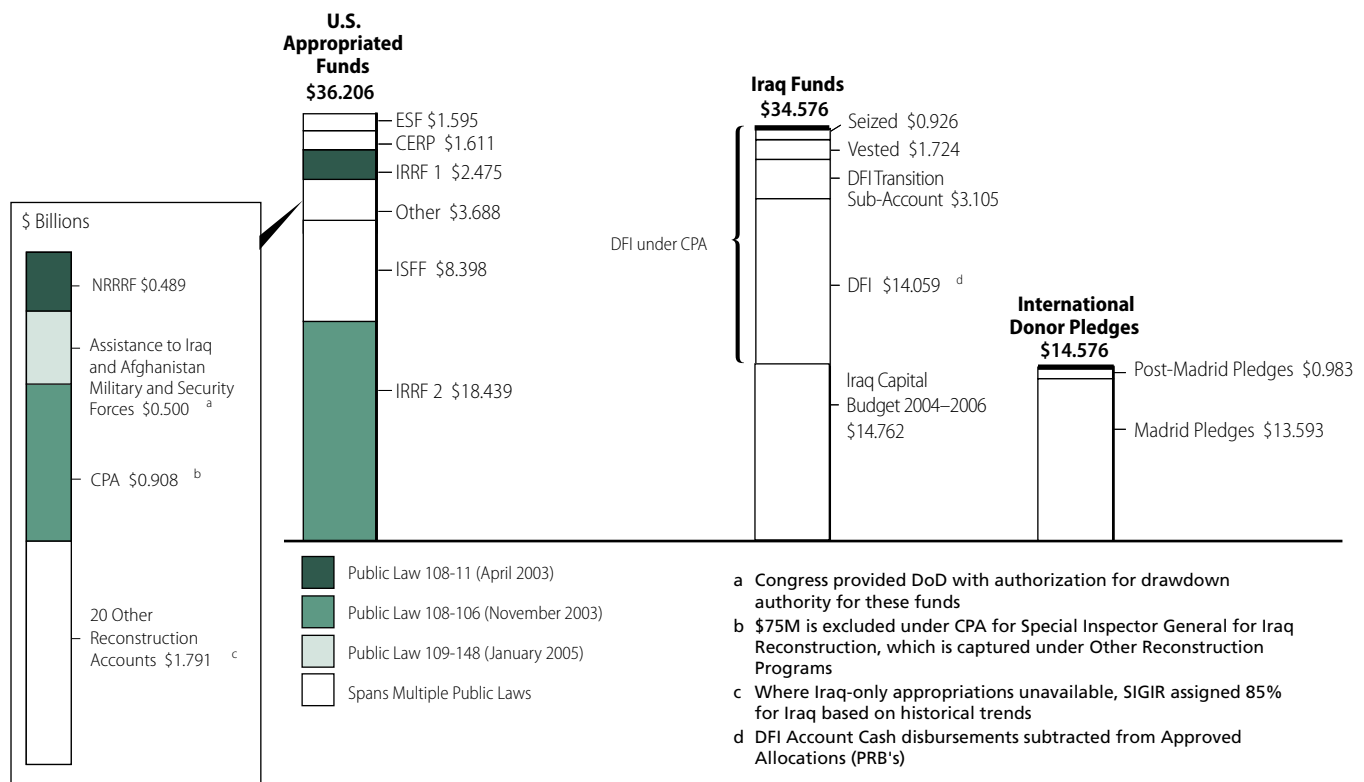
Since the 2003 conflict began, Congress has passed seven bills that provided more than \$36.2 billion in Iraq reconstruction funding. On June 15, the President signed an emergency supplemental appropriation (P.L. 109-234) of more than \$5.3 billion for Iraq reconstruction. For more information about P.L. 109-234, see the Legislative Update section in this Report.

Over the last three years, more than half of U.S. reconstruction funding has come from the

Iraq Relief and Reconstruction Fund (IRRF 1 and IRRF 2), created under P.L. 109-11 and P.L. 108-106.

U.S. agencies involved with the administration of reconstruction funding include the Department of Defense, Department of State, the U.S. Agency for International Development, and others. The appropriated funds are highlighted in Table 2-21, with projects ranging from infrastructure development to refugee and migration assistance.

FIGURE 2-41
SOURCES OF IRAQ RECONSTRUCTION FUNDING—\$83.358 BILLION
\$ BILLIONS



FUNDING MECHANISM	PL 108-7 7/JAN-03	EMERGENCY SUPPLEMENTAL WARTIME APPROPRIATIONS ACT, 2003	EMERGENCY APPROPRIATIONS ACT FOR THE DEFENSE AND FOR THE RECONSTRUCTION OF IRAQ AND AFGHANISTAN, 2004	DEPARTMENT OF DEFENSE APPROPRIATIONS ACT, 2005	EMERGENCY SUPPLEMENTAL APPROPRIATIONS ACT FOR DEFENSE, THE GLOBAL WAR ON TERROR, AND TSUNAMI RELIEF, 2005	APPROPRIATIONS FOR THE DEPARTMENT OF DEFENSE, FY 2006	APPROPRIATIONS FOR THE DEPARTMENT OF STATE, FY 2006	EMERGENCY SUPPLEMENTAL APPROPRIATIONS FOR FY 2006	TOTAL APPROPRIATIONS
Iraq Relief and Reconstruction Fund (IRRF 2)			PL 108-106 6/NOV-03	PL 108-287 5/AUG-04	PL 109-13 11/MAY-05	PL109-148 4/JAN-05	PL109-102 4/JAN-05	PL109-234 15/JUN-06	\$18,439,000,000
Iraq Security Forces Fund (ISFF)			\$18,439,000,000		\$5,391,000,000		\$3,007,000,000		\$8,398,000,000
Iraq Relief and Reconstruction Fund (IRRF 1)		\$2,475,000,000							\$2,475,000,000
Commander's Emergency Response Program (CERP)				\$140,000,000	\$718,000,000	\$408,000,000		\$345,000,000	\$1,611,000,000
Economic Support Fund (ESF) ^a		\$10,000,000				\$60,390,000	\$1,485,000,000		\$1,595,390,000
Coalition Provisional Authority (CPA) ^b			\$908,000,000						\$908,000,000
Assistance to Iraq and Afghanistan Military and Security Forces ^c						\$500,000,000			\$500,000,000
Natural Resources Risk Remediation Fund (NRRRF)		\$489,300,000				\$341,900,000		\$34,900,000	\$489,300,000
Military Construction ^d				\$210,000,000					\$376,800,000
New Iraqi Army ^e							\$200,000,000		\$210,000,000
Project and Contracting Office (PCO/DoD)									\$200,000,000
International Disaster Assistance		\$143,800,000							\$143,800,000
Combatant Commander Initiative Fund (CINC Initiative Fund) ^f		\$29,750,000	\$12,750,000	\$21,250,000	\$21,250,000			\$21,250,000	\$127,500,000
USAID Administrative Expenses		\$21,000,000			\$24,400,000			\$79,000,000	\$124,400,000
Department of State, International Narcotics Control and Law Enforcement (DoS/INL)		\$20,000,000						\$91,400,000	\$111,400,000
Diplomatic and Consular Programs ^g					\$49,659,000	\$56,908,000			\$106,567,000
Special Inspector General for Iraq Reconstruction (SIGIR) ^h			\$75,000,000					\$24,000,000	\$99,000,000
Child Survival and Health		\$90,000,000							\$90,000,000
PL 480 Title II Food Aid		\$68,000,000							\$68,000,000
Voluntary Peacekeeping Operations		\$50,000,000							\$50,000,000
Emergency Refugee and Migration Assistance		\$37,000,000							\$37,000,000
Overseas Humanitarian, Disaster and Civic Aid ^e			\$17,000,000						\$17,000,000
International Affairs Technical Assistance								\$13,000,000	\$13,000,000
United States Agency for International Development, Office of Inspector General (USAID OIG)		\$3,500,000	\$1,900,000		\$2,500,000				\$7,900,000
DoD Office of the Inspector General								\$5,000,000	\$5,000,000
Department of Treasury (Salaries and Expenses)								\$1,800,000	\$1,800,000
Department of State Office of Inspector General								\$1,000,000	\$1,000,000
Legal Activities and U.S. Marshals (Salaries and Expenses)								\$1,000,000	\$1,000,000
TOTAL	\$108,000,000	\$3,369,350,000	\$19,453,650,000	\$371,250,000	\$6,206,809,000	\$1,271,150,000	\$117,298,000	\$5,309,350,000	\$36,206,857,000

^a \$40M from FY 2003 ESF base account that was not reimbursed; \$10M from P.L. 108-11

^b Excludes \$75M for Special Inspector General for Iraq Reconstruction under P.L. 108-106

^c Congress provided DoD with authorization for drawdown authority for these funds.

^d As identified in GRD bi-weekly reports and P.L. 109-234

^e Where Iraq-only appropriations unavailable, based on historical trends SIGIR split 85% for Iraq and 15% for Afghanistan

^f Congress provided funding for PCO in other appropriations bills; more details will be available in future SIGIR reports.

^g Includes Iraq Reconstruction Management Office salaries and expenses, mission travel, public diplomacy programs, and other operating expenses related to reconstruction

^h CPA Operating Expenses under P.L. 108-106

TABLE 2-21

INTERNATIONAL DONOR FUNDS

Total funds pledged by non-U.S. donors after the war remained at \$14.58 billion this quarter. Total expenditures are believed to be somewhat above last quarter's estimated \$3.5 billion, but precise numbers have been difficult to obtain. The World Bank was asked to update the status of expenditures of Madrid pledges but has not received sufficient reporting from donors to provide a more specific figure. Table 2-22 provides information on these pledges.

The most significant development this quarter is the Iraqi government's request to the UN for help negotiating a "compact" with the international community. Under the compact, Iraq would pledge to undertake reforms in exchange for political and economic support. "The purpose of the compact is to achieve a National Vision for Iraq, which aims to consolidate peace and pursue political, economic, and social development over the next five years. The primary focus will be to build a framework for Iraq's economic transformation and integration into the region and the global economy," stated UN Deputy Secretary-General, Mark Malloch-Brown, at a July 6, 2006 press conference in Baghdad.

Senior U.S. officials have been working to generate support for the compact. Iraqi diplomacy has also intensified: in recent weeks, Prime Minister Maliki traveled to the United States, Great Britain, Saudi Arabia, Kuwait, and the United Arab Emirates to garner support for his government. He argued before the United

Nations General Assembly for support for the compact. It is hoped that the parties can agree on the compact's text by fall 2006, followed by a major donors conference that would generate significant financial pledges for Iraq's further reconstruction and development.

Meanwhile, the Donor Committee for the International Reconstruction Fund Facility for Iraq (IRFFI)—created at the 2003 Madrid Donors Conference and managed by the World Bank and UN—is still active. On May 24, 2006, donors met in Amman, Jordan, to review the results of external assessments of the management of the two trust funds. The assessors gave these trust funds positive marks and noted that the speed of donor disbursements to them had been relatively high. Table 2-23 shows the IRFFI committee members.

The UN, which implements many relatively small projects through 800 local staff, was praised for transparency; nevertheless, the UN agreed to put Iraqis and other donors on the steering committees for various cluster programs to ensure consistency with Iraqi priorities and better coordination among donors. The UN also agreed to streamline its cluster system. They noted that implementing through local staff, although inefficient in some ways, brought enormous cost savings. The World Bank confirmed plans to place a country director in Baghdad to intensify the policy dialogue with the Iraqi government and to have decision-making authority on implementation issues.

SECTOR SUMMARIES

PLEDGES OF RECONSTRUCTION AID TO IRAQ BY COUNTRY, AS OF JUNE 30, 2006

DONOR	ORIGINAL MADRID PLEDGE OCTOBER 2003	ADDITIONAL PLEDGES SINCE MADRID CONFERENCE	TOTAL PLEDGES JUNE 2006
Australia	\$ 45,590,974	\$ 31,000,000	\$ 76,590,974
Austria	5,478,165		5,478,165
Belgium	5,890,500		5,890,500
Bulgaria	640,000		640,000
Canada	187,466,454		187,466,454
China	25,000,000		25,000,000
Cyprus	117,810		117,810
Czech Republic	14,659,023		14,659,023
Denmark	26,952,384	40,000,000	66,952,384
Estonia	82,467		82,467
Finland	5,890,500		5,890,500
Germany	-	10,000,000	10,000,000
Greece	3,534,300		3,534,300
Hungary	1,237,005		1,237,005
Iceland	2,500,000		2,500,000
India	10,000,000		10,000,000
Iran	5,000,000	5,000,000	10,000,000
Ireland	3,534,300		3,534,300
Italy	235,620,020		235,620,020
Japan	4,914,000,000	50,000,000	4,964,000,000
South Korea	200,000,000		200,000,000
Kuwait	500,000,000	65,000,000	565,000,000
Lithuania	-	30,000	30,000
Luxembourg	2,356,200		2,356,200
Malta	27,000		27,000
Netherlands	9,424,801		9,424,801
New Zealand	3,351,975	990,000	4,341,975
Norway	12,867,617		12,867,617
Oman	3,000,000		3,000,000
Pakistan	2,500,000		2,500,000
Qatar	100,000,000		100,000,000
Saudi Arabia	500,000,000		500,000,000
Slovenia	419,382		419,382
Spain	220,000,000		220,000,000
Sri Lanka	-	75,500	75,500
Sweden	33,000,000		33,000,000
Turkey	50,000,000		50,000,000
United Arab Emirates	215,000,000		215,000,000
United Kingdom	452,326,416		452,326,416
United States	10,000,000		10,000,000
Vietnam	-	700,000	700,000
Subtotal	7,807,467,293	202,795,500	8,010,262,793
European Commission	235,620,000	480,000,000	715,620,000
Subtotal	8,043,087,293	682,795,500	8,725,882,793
International Financial Institutions			
IMF (low range)	2,550,000,000		2,550,000,000
World Bank (low range)	3,000,000,000		3,000,000,000
Islamic Development Bank	-	300,000,000	300,000,000
Subtotal	5,550,000,000	300,000,000	5,850,000,000
Total Donor Assistance	\$13,593,087,293	\$982,795,500	\$14,575,882,793

Source: U.S. Department of State

Note: Data not formally reviewed, audited, or verified.

Pre-Madrid pledges for humanitarian assistance are not included in this table.

TABLE 2-22

DONOR COORDINATION

Improved donor coordination continues to be a top priority for the United States and other donors as the major U.S. reconstruction funding is expended and the outline of a more international effort comes into focus. The Baghdad Coordination Group and sector working groups continue to meet with progressively stronger Iraqi leadership. The future shape of donor coordination awaits the negotiation of the new compact.

The Ministry of Planning continues to populate the Donor Assistance Database (DAD), adding another \$100 million in projects since SIGIR's April 2006 Quarterly Report. According to the third report on the DAD, the total is \$8.61 billion as of May 5, 2006—only 38% of

the grants pledged from 2003-2006. The World Bank and UN trust funds, Japan, and small bilateral donors have provided data on most of their projects to the DAD. Larger bilateral donors have been slower to participate. Only 32% of U.S. and 52% of United Kingdom (UK) pledges have been reported to the DAD. The data is accurate in terms of the sector of assistance, but about 25% of the projects do not include a specific location or province for the project or program. The Iraqis will need to further improve data collection before the DAD can be used to fully monitor, analyze, and prioritize aid to the Iraqi government.

The Ministry of Planning and the UN Development Program (UNDP) are working with the Ministries of Finance, Electricity, Education, Public Works, and Health and

INTERNATIONAL RECONSTRUCTION FUND FACILITY FOR IRAQ DONOR COMMITTEE MEMBERS

Canada (Chair)	Kuwait
United Kingdom	Iran
Italy	Norway
India	Korea
Turkey*	Qatar
Sweden	Spain
Finland*	European Commission
Japan	United States
Australia	Denmark

*Rotating members

Table 2-23

Municipalities to teach staff to use the DAD. A pilot project in Basrah will initiate regional inputs for the DAD, and there are also plans to incorporate loans, grants, and projects from Iraq's National Budget.

MAJOR BILATERAL AND MULTILATERAL PROGRAMS

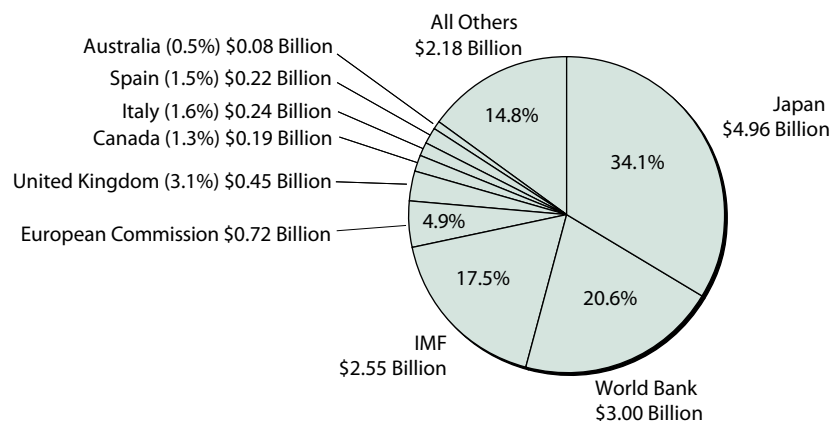
The April 30, 2006 SIGIR Quarterly Report outlined the programs of major bilateral donors. The United States continues to encourage other donors to implement their Madrid pledges. The next sections focus on the significant changes in Japan, UK, and European Commission (EC) programs this quarter. Figure 2-42 provides information on donor pledges.

Japan

Of Japan's pledge of \$5 billion at Madrid, the \$1.5 billion in grants (plus an additional \$50 million) was completely obligated more than a year ago. \$911 million went to direct assistance, including technical assistance, \$490 million through IRFFI trust funds, \$116 million directly through international organizations such as UNDP, \$27 million through Non-Governmental Organizations (NGO), and \$10 million to the International Finance Corporation. The sectors covered were Electricity, Water and Sanitation, Health, Roads and Bridges, Education and Culture, and Security.

Japanese officials continue work with Iraqi officials to develop projects for the \$3.5 billion in concessional loans. This quarter, Japan and Iraq agreed on a \$28 million project for bridges

FIGURE 2-42
PLEDGES FROM OTHER NATIONS—\$14.58 BILLION
As of June, 2006
Source: U.S. Department of State
\$ Billions



and roads in Samawah. Projects are currently underway to rehabilitate the Port of Umm Qasr (\$259 million), improve irrigation channels (\$81 million), and rehabilitate the Al-Mus-saib thermal power plant (\$315 million).²⁸⁴

United Kingdom

Total UK pledges to Iraq, including both Madrid (\$452 million) and pre-war humanitarian contributions (\$468 million), remain at \$920 million. With an estimated \$904 million expended as of July 2006, the UK is close to fulfilling its obligation. Table 2-24 shows UK expenditures by program. The UK Department for International Development (DFID), which is responsible for implementing UK pledges, has been involved in many of the same types of projects that the United States is funding, but on a smaller scale and focused more in the south:

- rehabilitating power and water infrastructure

- organizing the Prime Minister's office and the governors' offices in the south
- training for the Government Communications Directorate
- planning and budgeting for strategic development in the southern provinces
- intergovernmental coordination
- macro-economic and budget reform
- strengthening independent broadcasting
- developing civil society

The UK also has a quick-impact program financed by the Ministry of Defense, which has a similar mission to that of the Commander's Emergency Response Program (CERP).

DFID reports similar challenges: security, constantly changing government counterparts, and weak overall government capacity. DFID's program for 2006-2007 will focus on economic reform, delivering power and water improvements in the south, governance and institution-building in Baghdad and the south, support for civil society and political participation, and capacity building in the Ministry of Interior. DFID funds a World Bank advisor in Baghdad to speed up engagement in oil and electricity issues and to help the Iraqi government develop a plan for the energy sector.²⁸⁵

European Commission

Pledges of humanitarian and reconstruction assistance by the European Union now total \$840 million, including the recent pledge for \$240 million for 2006. The EC reports that all

UK DONOR PLEDGES, AS OF JULY 24, 2006 (IN MILLIONS)

DFID Bilateral Program	\$475
IRFFI Trust Funds	\$127
Contribution to EC Program	\$113
FCO Programs	\$64
Global Conflict Prevention Pool	\$66
MoD Quick Impact Projects	\$59
Total	\$904

Source: email from DFID, July 24, 2006; exchange rate used: \$1.69 per pound sterling.

TABLE 2-24

TOTAL IRFFI DONOR CONTRIBUTIONS AND WORLD BANK IRAQ TRUST FUND ALLOCATIONS, AS OF JUNE 30, 2006

DONOR	COMMITMENTS		DEPOSITS	
	WORLD BANK	UNITED NATIONS	WORLD BANK	UNITED NATIONS
AUSTRALIA	\$16,400,000	\$16,775,000	\$16,100,000	\$16,775,000
AUSTRALIA (DEPT OF IMMIGRATION)	-	3,292,000	-	3,292,000
AUSTRIA	-	-	-	-
BELGIUM	-	1,321,000	-	1,321,000
CANADA	22,300,000	46,400,000	22,300,000	46,400,000
DENMARK	-	10,666,000	-	10,666,000
FINLAND	2,600,000	6,234,000	2,600,000	6,234,000
GREECE	-	3,630,000	-	3,630,000
ICELAND	1,000,000	500,000	1,000,000	500,000
INDIA	5,000,000	5,000,000	5,000,000	5,000,000
IRAN	-	-	-	-
IRELAND	-	1,226,000	-	1,226,000
ITALY	-	29,782,000	-	29,782,000
JAPAN	130,000,000	360,951,000	130,000,000	360,951,000
SOUTH KOREA	4,000,000	11,000,000	4,000,000	11,000,000
KUWAIT	5,000,000	5,000,000	5,000,000	5,000,000
LUXEMBOURG	-	200,000	-	200,000
LUXEMBOURG (EURO)	-	2,119,000	-	2,119,000
NETHERLANDS	6,200,000	6,697,000	6,200,000	6,697,000
NEW ZEALAND	-	3,365,000	-	3,365,000
NORWAY	6,700,000	7,009,000	6,700,000	7,009,000
QATAR	5,000,000	5,000,000	2,500,000	5,000,000
SPAIN	20,000,000	20,000,000	20,000,000	20,000,000
SPAIN (EURO)	-	2,380,000	-	2,380,000
SWEDEN	5,400,000	10,622,000	5,800,000	10,622,000
TURKEY	1,000,000	200,000	1,000,000	200,000
UNITED KINGDOM	71,400,000	55,542,000	71,400,000	55,542,000
UNITED STATES	5,000,000	5,000,000	5,000,000	5,000,000
EUROPEAN COMMISSION (RRM)	3,700,000	24,978,000	-	24,978,000
EUROPEAN COMMISSION (HUMAN RIGHTS)	-	7,307,000	-	6,937,000
EUROPEAN COMMISSION	149,800,000	283,724,000	149,800,000	266,805,000
TOTAL NON U.S. DONOR ASSISTANCE	\$460,500,000	\$935,920,000	\$454,400,000	\$918,631,000

Source: www.irffi.org

TABLE 2-25

financial resources allocated to date have been committed to projects. This does not include the \$240 million for 2006.

In July 2006, the EC appointed the head of its newly established European Commission Delegation in Iraq, reinforcing the EC presence and paving the way for deeper engagement in reconstruction and political issues. The EC, the second-largest donor to the IRFFI Trust Funds after Japan, continues to be a strong advocate for multilateral assistance for Iraq. Most of the EC's 2006 pledge is expected to be channeled through the UN trust fund although its bilateral programs will also be expanding. The 2006 program will focus on promoting longer-term stability in Iraq and establishing solid institutions that can benefit all Iraqi citizens. Iraqi ownership and partnership will be the guiding principle of the program, which will include:

- assisting in an inclusive constitutional review and implementation (\$48 million)
- promoting good governance through civil service reform, rule of law, and sound management of public finances (\$48 million)
- supporting the exploitation of natural gas reserves (\$48 million)
- rehabilitating services (\$132 million)

The EC plans to pay particular attention to institutional strengthening in trade and energy. To be able to adjust quickly to new government priorities, the EC plans to keep a \$12 million reserve.²⁸⁶ (See Table 2-26 and Figure 2-43.)

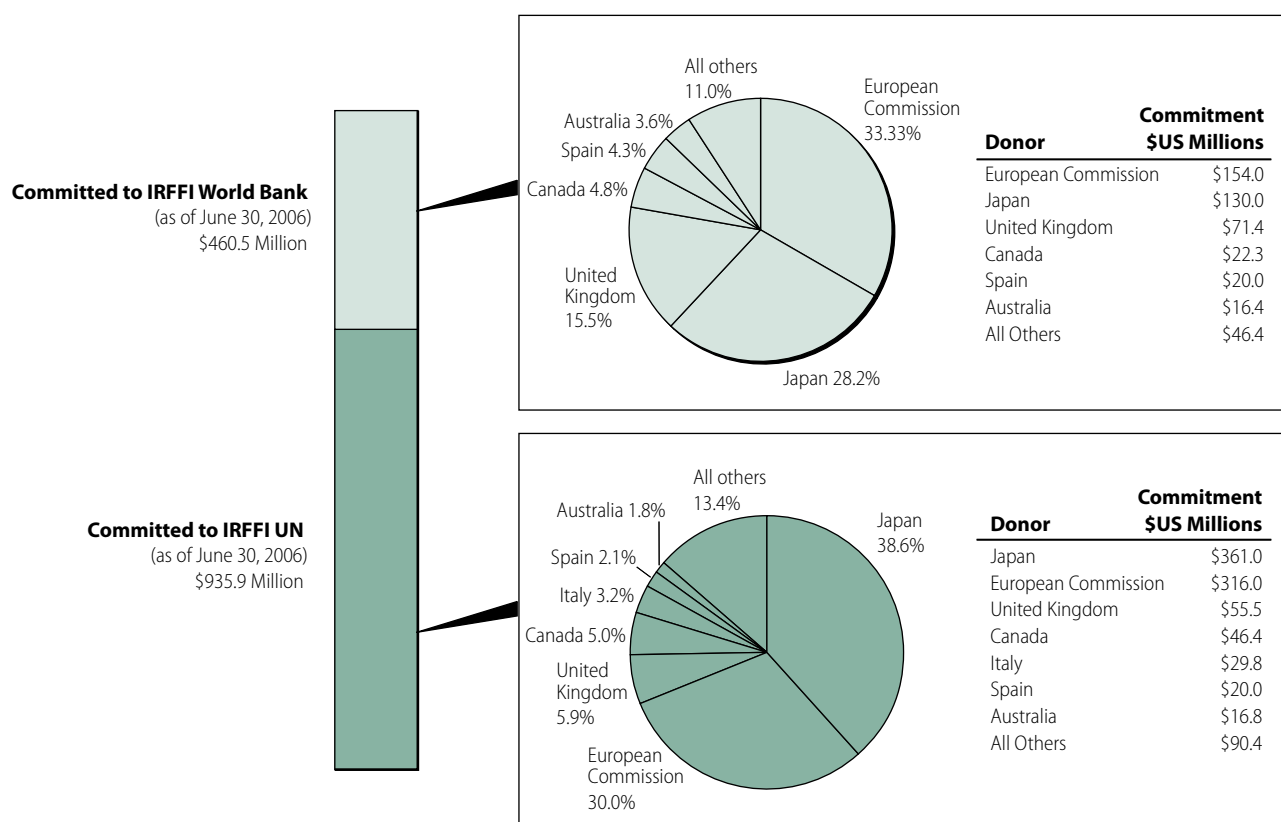
World Bank

As of June 30, 2006, the World Bank trust fund has received \$454 million from 17 donors. The trust fund is financing 12 projects for a total of \$400 million, about half of these funds (\$193 million) are under contract or tendered. Trust fund expenditures total about \$64 million. In June, the World Bank approved a \$135 million International Development Association (IDA) credit for Iraq for an Emergency Road Rehabilitation Project. This is in addition to the \$100 million credit for the Third Emergency Education Project approved last November. \$265 million of the IDA concessional loans pledged at Madrid remain to be programmed.

World Bank projects continue to be approved by the Iraqi Strategic Review Board (ISRB). The World Bank is actively recruiting a country director and a small number of expatriate staff for its office in the International Zone to enable more decisions on project priorities to be made in Baghdad and to deepen the dialogue with the Iraqi government. The Baghdad-based country director is not expected to significantly affect the rate of expenditure on projects, which depends primarily on Iraqi staff operating outside the International Zone.

Repeated shifts in ministry staffs continue to pose a major challenge to more rapid implementation, but this problem should abate as new ministers of the permanent government settle in. The World Bank has invested heavily in training the Iraqis, who implement their projects most often in Amman or elsewhere in

FIGURE 2-43
INTERNATIONAL DONOR CONTRIBUTIONS TO IRFFI
 As of June, 2006
 Source: www.irffi.org



the region. In cooperation with the Ministry of Planning, the World Bank has been preparing briefing books for new ministers.

The World Bank has learned that some early project designs were too complicated and needed to be simplified—for example, in water and irrigation. To assist monitoring, the World Bank hired an Iraqi audit firm that uses

local inspectors from neighborhoods near the projects for verification. This helps minimize convoy travel for Iraqi staff.

Recognizing that systemic corruption in Iraq adds to the risk for international donors as they work to implement their programs, the World Bank has put in place various measures to mitigate corruption. These measures have

slowed its procurement process in some cases. The World Bank also hosted an anticorruption conference for Iraq in Dubai in late July.²⁸⁷

World Bank's priorities for the coming months include anticorruption efforts, coordinating more closely with the U.S. program to avoid duplication, pressing for progress in the oil sector, and building capacity, which requires close coordination with the U.S. Ministry Advisory Teams. To use resources most efficiently, the World Bank believes that the Iraqis and all donors need to agree on sector plans.²⁸⁸

United Nations

Total deposits in the UN trust fund currently amount to \$919 million from 24 donors. Donors can earmark their contributions to the UN trust fund. Support for the electoral process (24%) and infrastructure rehabilitation

(22%) are the most popular clusters among donors. Of the approved funding that goes through the ISRB, 25% has supported the electoral process, and 18% has gone to infrastructure rehabilitation. Other popular sectors among donors and Iraqis include Agriculture, Education, and Health.

Sixteen UN agencies are implementing 93 projects with \$802 million in funding. UNDP has the most approved funding (28%), followed by the UN Office for Project Services (16%) and United Nations International Children's Emergency Fund (UNICEF) (9%). Of this approved funding, \$622 million (77%) has been obligated, and \$503 million (63%) has been expended. Fourteen projects have been completed.

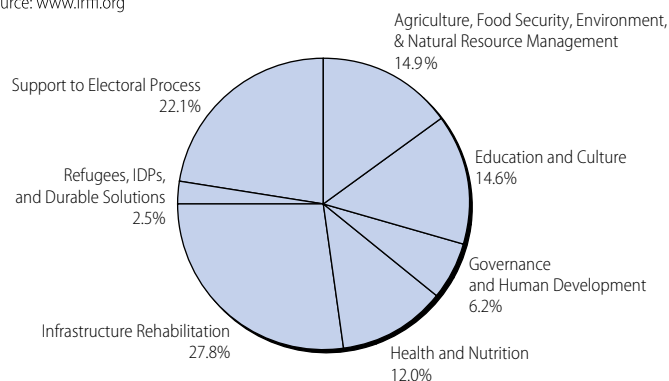
The UN Web site posted \$459 million in contract awards: 15% went to Japan, 14% to Iraq, 12% to the UK, and 10% to China. U.S.

FIGURE 2-44

UNDG Iraq Trust Fund

Approved and Funded Projects by UN Cluster as of 6/30/06

Source: www.irffi.org



firms account for less than 5% of these contracts. A recent outside audit of the UN program found no financial problems but recommended ways to make the cluster organization and project approval process more efficient. The results of the audit will be made public.²⁸⁹

UN staff continues to operate in Amman, Kuwait, and Cyprus, and offices have been opened in Basra and Erbil. Also, a small assistance staff is now part of the UN mission quota in Baghdad. UN officials observe that the need to use primarily Iraqi staff has cut personnel costs to about 5% of total program costs—down from 30%, when international staff was engaged. The UN plans to consider this model for other countries.²⁹⁰

In July, the UN Deputy Secretary-General traveled to Iraq to discuss the new government's interest in establishing a compact with the international community to build a framework to transform Iraq's economy and integrate it into the regional and global economy. The Deputy Secretary-General and the Deputy Prime Minister will co-chair the preparatory group for the compact.²⁹¹

The chairman of the IRFFI Donors Committee also visited Baghdad to discuss the future of the IRFFI trust funds. It was agreed that these funds should continue to be a funding mechanism for rapid delivery of basic services, but they should begin to focus more on supporting Iraqi institutions that will implement the reforms resulting from the compact. It was also agreed that the mandate of the trust

funds should be re-examined and revitalized to support the new government's priorities. The Donor Committee Chair will be part of the preparatory group for the compact.²⁹²

Figure 2-44 shows the UN Development Group (UNDG) Iraq Trust Fund by UN cluster.

International Monetary Fund

IMF funding of \$1.15 billion remains available for balance of payments support:

- \$430 million from the Emergency Post-conflict Assistance (EPCA) package
- \$685 million from the Stand-By Arrangement (SBA)

Thus far, Iraq has not drawn against any of these funds. The next review of Iraq's performance under the SBA is scheduled for August 2006. This review is particularly significant because successful performance is a condition for moving forward with Paris Club debt relief. The IMF continues to train Iraqi economic and finance officials.²⁹³

IRAQI FUNDS

Last quarter, SIGIR estimated that the Iraqi contribution to reconstruction after the CPA period was \$14.762 billion—the sum of the 2004-2006 capital budgets. SIGIR has no further information about how much of these funds have been expended. The Iraqi government is now beginning to plan the 2007 budget.